

2004

**HSBC Bank Malta p.l.c.**

*Annual Report  
and Accounts*

## **The HSBC Group**

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HSBC Bank Malta p.l.c. is a member of the HSBC Group, whose ultimate parent company is HSBC Holdings plc. Headquartered in London, HSBC Holdings plc is one of the largest banking and financial services organisations in the world. The HSBC Group's international network comprises about 10,000 offices in 76 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa.

### **HSBC Bank Malta p.l.c.**

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## Chairman's Statement



I am pleased to advise that 2004 was another record year for HSBC Bank Malta p.l.c.

### Performance

The results are based on a significant increase in business volumes with customers, which reflects the trust and confidence that the public has in HSBC Bank locally and its brand globally.

The continued investment in new products and services, in systems and in our people have all combined to underpin our performance. Our performance also benefited from a further improvement in the quality of our loan portfolio, allowing the prudent recovery of provisions raised in previous years. Profit before taxation increased by 26.3 per cent to Lm33.0 million. Costs were once again contained without reducing customer service or investment for the future. The bank's fund management, insurance and stockbroking subsidiaries also contributed substantially to the overall performance of the group.

Profit attributable to shareholders increased by 31.9 per cent. Following a policy of increased dividend payouts, a final gross dividend of 27.3 cents per share is being recommended, bringing the total gross dividend paid to shareholders for the year to 82.1 cents (this includes a one-off special dividend of 35.4 cents per share to celebrate the fifth anniversary of HSBC's acquisition of Mid-Med Bank p.l.c.). Dividend yield at

year end market price works out at 10.3 per cent. Overall, the dividend, excluding the one-off special dividend, has increased by 31.9 per cent over the prior year's levels.

At the same time shareholders have seen a strong rise in the value of their shares. Market capitalisation has increased from Lm102.1 million in June 1999 to Lm291.5 million as at end of December 2004, with the share price rising from Lm2.80 to Lm7.99 over the same period.

### Strategy

During the year, the bank aligned itself with the HSBC Group's global strategy of "Managing for Growth" with the main focus being on customer-driven initiatives. In order to streamline the bank's operations and ensure the provision of a consistently high quality of service, business lines were reorganised under three different customer groups, namely Personal Financial Services; Commercial Banking; and Corporate, Investment Banking and Markets (CIBM). Each is headed by a senior executive responsible for ensuring customers are provided with products, services and solutions that meet their needs.

The bank has continued its investment in IT, systems and premises in support of these customer groups. These initiatives, together with other customer-facing HSBC Group IT systems, reflect the commitment of the bank towards offering a reliable and consistent high quality service to its customers. In February 2004, the new Operations Centre at Qormi was formally opened to centralise its operational and processing support areas, achieving significant gains in efficiency and enabling the release of staff to customer-facing roles.

The bank also invested heavily in its staff during the year. Around 4,600 days of training were delivered in all areas and 15 delegates were sent on formal training courses overseas to enhance their skills.

### Corporate Social Responsibility

Being a good corporate citizen is at the heart of everything HSBC strives to do and be for our customers, staff, shareholders and the community in which we operate both here in Malta and around the world.

We believe this is the right and responsible thing for all businesses to do. Community involvement and business integrity are as important as earnings. However our support also involves significant participation by our staff as much as financial contribution by the bank itself.

The bank's commitment to corporate social responsibility is illustrated by various activities and



Lm50,000 donation to "HSBC Cares For Children Fund" on Wednesday, 21 July 2004.

programmes. To celebrate its fifth anniversary the bank donated Lm50,000 to the "HSBC Cares For Children Fund" and Lm10,000 to the Community Chest Fund. Through the "HSBC Cares For Children Fund" various educational, rehabilitation and recreational programmes were held for disadvantaged young people.

During the year, the bank also sponsored and participated in a number of philanthropic, social and cultural events and supported charitable causes. One of the highlights of the year was a concert organised at the Fra Diegu Home in Hamrun in conjunction with the visit to Malta by HRH The Princess Royal.

In November, a new fund "HSBC Cares for the Environment" was set up with its main aim being to help with the improvement of the environment in Malta and to take initiatives that will enhance public awareness of environmental issues, something which is at the heart of the HSBC Group worldwide.



Staff members giving a helping hand on "Clean Up The World" day on Sunday, 5 December 2004.

## Reputation

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Being part of an international banking group with a strong brand image, the bank's reputation is a key factor. Once again HSBC Bank Malta was recognised by a number of leading institutions including *The*

*Banker*, voting it the Bank of the Year for Malta for the second consecutive year.

## Board

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A new Chief Executive Officer, Shaun Wallis, was appointed in September 2004, replacing Chris Hothersall. I would like to convey my thanks to Chris Hothersall for his valuable and excellent contribution and would also like to congratulate Shaun Wallis on his new appointment and wish him every success in moving the bank forward. I am also pleased to welcome Charles John Farrugia and Philip Farrugia Randon to the Board of Directors. James Bonello retired as a Director in February 2004, after 39 years of outstanding service to the bank.

The Board has an excellent blend of Directors comprising two local executives, two locally based expatriates, four local non-executives and one overseas Director. Together I believe they offer strong support and a good combination of local and international expertise.

## Outlook

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Looking forward, we believe the bank has a robust strategy, excellent people and systems, a superb customer base and a high quality range of customer-driven products and services. We, therefore, remain confident we will once again achieve good results in 2005.

I would like to take the opportunity to extend my appreciation and thanks to the Board of Directors and to the chairmen and directors of the subsidiaries for their excellent contribution towards a remarkable year. My sincere thanks and congratulations go to the dedicated and loyal work force, without whom the success would not have been possible. The quality of service and the professionalism and commitment of our staff augur well for our performance in the future. Finally, I should like to thank our customers for their continued support.

Albert Mizzi, *Chairman*  
11 February 2005

## Chief Executive Officer's Review of Operations



2004 was a very active and successful year for HSBC Bank Malta p.l.c. in terms of the changes to strategy, structure and business development and led to record financial results, the establishment of a solid foundation on which to build for the future and a strong forward momentum across our sales force.

### Managing for Growth Strategy

We adopted the HSBC Group's strategy of "Managing for Growth", which focuses on maximising the potential of the existing business, network, customer base and resources.

As the Chairman has already mentioned, this has meant reorganising the bank around our principal customer groups: Personal Financial Services; Commercial Banking; and Corporate, Investment Banking and Markets (CIBM). This will give focus to our efforts to meet our customers' needs with products, services and solutions appropriate to each customer segment based on HSBC's global and local experience and expertise. Accordingly, I will briefly describe the progress made in each of these areas underpinning the performance of the bank in 2004.

### Personal Financial Services

Personal Financial Services provides all individual and self-employed customers with a wide range of banking and

related financial services including small business banking, private banking, retail banking, consumer finance, funds' management, insurance products and stockbroking.

In 2004, all these areas were brought under one customer group and one management structure to give better co-ordination and focus in managing the needs of our customers and their overall relationship with HSBC.

This focus has enabled the bank to develop a market-leading range of borrowing and investing products for each segment of the personal banking market through an exciting and innovative series of retail-type promotions and advertising campaigns with incentives, discounts and loyalty packages.

We have restructured our area offices, introduced new HSBC *Premier* relationship managers to our most valued relationships and substantially increased the number of people in our wealth management teams to provide our customers with bespoke, quality advice. This customer-driven focus resulted in a significant growth over the prior year in the sale of all major products: deposits, investment funds, share trading, life insurance policies as well as in home loans, personal loans and credit cards.

Similarly, opening hours have now been extended to provide customers with a simple and standard service through summer and winter, enabling them more time to do business with our staff in the branches. This change was the result of an agreement with the unions to put the customer at the forefront of all we do.

Considerable progress was made in further automating front and back office activities which released more customer-facing staff to have more quality time with customers and enabled the bank to process significantly greater volumes of business on a flat cost basis.

A customer-driven approach was also applied to all the channels by which customers can access and use the bank. Volumes of transactions handled over our ATMs, internet banking service and call centres reached record levels and continued to increase. The local investment in the HSBC Group's leading global technology underpinned this performance.

In 2005, we will continue to leverage off the HSBC Group's huge technological expertise and invest further to support our customers and the development of our relationships with them.

### Commercial Banking

Commercial Banking services HSBC's large base of local and international businesses in Malta. All activities, products and services related to this customer segment have been reorganised into one group with a newly appointed Head of Commercial Banking.



"Let's Lead" conference for staff on Wednesday, 1 December 2004, at the Eden Arena, St. Julians.

A new strategic plan for this sector has been formulated with a refreshed customer proposition, and a new range of products, systems, solutions and initiatives will be launched in 2005.

This strategy will build upon the successful relationship management and business solutions approach already introduced.

2004 was a very successful year for Commercial Banking in terms of new business and relationships as well as excellent financial results. However, we aim for significant growth in 2005 by leveraging HSBC's international brand and expertise in this newly-focused customer segment.

### **Corporate, Investment Banking and Markets (CIBM)**

Our treasury markets business produced record results on the back of higher foreign exchange turnover, investment and careful management of the bank's balance sheet, interest rate and currency positions.

Custody services for international and local institutions increased substantially, due to HSBC's global brand and reputation in this area and as foreign investment business was attracted following Malta's accession to the European Union in May.

In the area of stockbroking, we grew our market share of the Malta Stock Exchange turnover by value.

During the year, we assisted customers with corporate advisory services on financial structuring and international planning, using the HSBC Group's

expertise to support our local team. We believe we are very well positioned to continue to grow this aspect of our business in 2005.

Treasury also supported our Personal Financial Services and private banking business by drawing upon the HSBC Group's experience to design and introduce appropriate investment products aimed at customers looking for investments linked to equity markets.

### **Human Resources**

Towards the end of the year, the bank concluded negotiations with the unions on a new collective



Changes this year have made more of our staff available to serve our customers face to face.

## Chief Executive Officer's Review of Operations (continued)

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agreement for the next three years. This is a notable achievement since it is the first time the agreement has been finalised before the expiry of the old one. The agreement took into consideration the interest of all the stakeholders: the customers, the staff, the bank and our shareholders – and in particular put the customer at the centre of a more flexible working environment.

The agreement represents a professional and positive relationship between the stakeholders towards our company. I am, therefore, confident that this agreement lays the basis for future growth of the bank, with staff being rewarded as they deserve for their performance and contribution. The bank's staff is our major asset and we continued to invest heavily in our staff during the year. Training was carried out on a continuous basis and a number of staff were sent overseas to further enhance their skills. We believe that we have a pool of very professional and talented people, who can take our bank forward successfully. I would like to take the opportunity to thank all my colleagues for their outstanding contribution and teamwork during 2004.

### Awards and Achievements

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There were some special achievements, which I would like to mention.

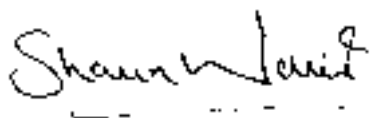
For the second year running the bank won the prestigious Bank of the Year Award for Malta granted by *The Banker* magazine.

The Institute of Financial Services recognised the bank's centralisation and automation project "Project Wisdom Tooth" through their nomination of HSBC Bank Malta as finalists in the Financial Innovation Award category of the Most Effective Back Office Initiative. The bank also won an Astrid Award from the US for its in-house staff magazine, *Munita*.

### Outlook

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In summary, the year under review was very successful across many areas and, in spite of change, we again produced record results. We are confident that there is good potential to continue to grow our business in Malta. We thank you for your support.



Shaun Wallis, *Chief Executive Officer*  
11 February 2005



## Board of Directors

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### **Albert Mizzi**, NON-EXECUTIVE CHAIRMAN

Age 77. Non-Executive Chairman of HSBC Bank Malta p.l.c. since June 1999. In 1946, joined family business Alf. Mizzi & Sons Ltd. and was Chairman for several years. In the 1960s he was heavily involved in private banking and appointed director of Medport. Established a number of Malta's important parastatal businesses: Air Malta, Sea Malta, Medserv, Mediterranean Insurance Brokers and Middle Sea Insurance. Following the setting up of Air Malta in 1973, he served as its Chairman for 19 years.

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### **Shaun Wallis**, DIRECTOR AND CHIEF EXECUTIVE OFFICER

Age 49. Director of HSBC Bank Malta p.l.c. since January 2000. Executive of the HSBC Group since 1978. He has occupied a number of senior managerial positions within the HSBC Group in different countries. Most recent appointment was General Manager International responsible for HSBC Bank plc's overseas countries in Europe. Chief Executive Officer of HSBC Bank Malta p.l.c. since September 2004.

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### **Martin Wilkins**, DIRECTOR AND CHIEF OPERATING OFFICER

Age 54. Director of HSBC Bank Malta p.l.c. since July 2003. A professional banker and an associate of the Chartered Institute of Bankers in England. Joined HSBC Bank plc (formerly Midland Bank plc) in 1970 and followed a traditional branch banking path before moving into international banking. Has held a number of senior managerial positions in the UK, USA and continental Europe.

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### **Dyfrig John**, DIRECTOR

Age 54. Director of HSBC Bank Malta p.l.c. since January 2003. Joined Midland Bank in 1972. Following a number of senior management appointments in London and Wales, he took over as Chief Executive Officer of The Hongkong and Shanghai Banking Corporation Limited in India in May 1997. Appointed Deputy Chairman and Chief Executive Officer of HSBC Bank Malaysia Berhad in November 1999 and subsequently Group General Manager in August 2000. Presently Chief Operating Officer of HSBC Bank plc.

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### **Philip Farrugia Randon**, DIRECTOR

Age 55. Director of HSBC Bank Malta p.l.c. since June 2004. Graduated LL.D. in 1973 and joined the bank in 1974 as a legal adviser. Held the post of Company Secretary of the bank for several years. Also holds the post of Head of Group Legal Department.

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### **Charles John Farrugia**, DIRECTOR

Age 47. Director of HSBC Bank Malta p.l.c. since November 2004. Joined the bank in 1975. Was appointed Chief Dealer in 1995, Group Senior Treasury Manager in 1999 and Managing Director of HSBC Stockbrokers (Malta) Limited in 2001. Currently holds the post of Head of Corporate, Investment Banking and Markets.

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### **Louis Farrugia**, NON-EXECUTIVE DIRECTOR

Age 53. Non-Executive Director of HSBC Bank Malta p.l.c. since March 2000. Group Chief Executive and Managing Director of Simonds Farsons Cisk plc. Fellow of the Institute of Chartered Accountants in England and Wales. In 1998 appointed as Director of the Institute for the Promotion of Small Enterprises and the Malta Development Corporation and also as President of the Malta Chamber of Commerce. For five years served on the Council of the Federation of Industries as Honorary Treasurer and Vice President. Appointed President of the Confederation of Private Enterprises in 1985.

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### **Victor Scicluna**, NON-EXECUTIVE DIRECTOR

Age 66. Non-Executive Director of HSBC Bank Malta p.l.c. since March 2001. A Certified Public Accountant. Currently Chairman of the Board of Governors of the Malta College of Arts, Science and Technology and Chairman of the Malta Council for Economic and Social Development.

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### **Peter Paul Testaferrata Moroni Viani**, NON-EXECUTIVE DIRECTOR

Age 44. Non-Executive Director of HSBC Bank Malta p.l.c. since March 2001. Holds various executive positions and directorships within the Testaferrata Group of companies.

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### **George Brancalone**, COMPANY SECRETARY

Age 43. Company Secretary of HSBC Bank Malta p.l.c. since June 2004. Joined the bank in 1980 and graduated LL.D. in 1988. Company Secretary of various HSBC subsidiaries in Malta since 2001. Presently holds the post of Senior Manager at Group Legal Department.

## Financial Review

### Summary of Financial Performance

#### Group profit

During the year ended 31 December 2004, HSBC Bank Malta p.l.c. and its subsidiaries generated a profit on ordinary activities before tax of Lm33.0 million, an increase of Lm6.9 million, or 26.3 per cent compared with the year ended 31 December 2003.

Profit attributable to shareholders was Lm22.1 million, an increase of Lm5.3 million over prior year figures.

Net interest income grew by 13.8 per cent over prior year and contributed Lm39.5 million to total operating income.

Non-interest income levels grew by 6.8 per cent, contributing Lm19.9 million to total operating income.

Operating expenses were Lm30.7 million, an increase of Lm0.1 million over prior year figures.

As a result, the group's cost to income ratio decreased to 51.1 per cent from 56.8 per cent in 2003.

Net impairment reversals contributed Lm4.0 million to profitability.

#### Shareholder ratios

Earnings per share increased from a 2003 figure of 46.0 cents to 60.7 cents, with the pre-tax return on average shareholders' funds increasing from 21.1 per cent in 2003 to 24.9 per cent.

The Directors propose a final dividend of 27.3 cents per share. This follows on the gross interim dividend of 19.4 cents and additional special dividend of 35.4 cents paid in August 2004. The special dividend to shareholders marked the fifth anniversary of HSBC Bank Malta p.l.c.

#### Net interest income

Net interest income grew by 13.8 per cent, over prior year levels, and contributed Lm39.5 million to total operating income. Local monetary policy conditions remained stable and the market was characterised by a general preference for shorter term liquidity with low international and local interest rates. There was significant growth in mortgage lending and the lower cost of borrowing helped cashflow and credit quality.

Period-end group balance sheet assets increased by Lm58.8 million to Lm1,597.8 million during 2004, reflecting strong consumer demand for mortgage financing and stable commercial lending patterns offset by lower Treasury Bill holdings.

#### Non-interest income

Non-interest income levels grew by 6.8 per cent, contributing Lm19.9 million to total operating income.

Fees and commissions contributed Lm10.1 million, down on last year's Lm10.8 million. During 2004, income recognised on sales of equity linked deposits was amortised over the lifetime of the underlying deposit products. The average product lifetime is four years. In prior periods, income on equity linked deposit sales was recognised upfront on the opening of the new deposit accounts. Amortisation reduced product income levels during the year. Overall, fees and commissions recorded stronger volumes on fund management business, growth in account services income and greater card activity.

Trading profits increased by 12.8 per cent to Lm6.6 million in an active foreign exchange turnover market.

The local securities market was characterised by low and stable interest yields. Net gains on disposal of available-for-sale securities generated Lm1.7 million, strongly up on a prior year Lm0.6 million.

Other operating income grew by 14.0 per cent to reach Lm2.2 million, reflecting positive underlying performance from life assurance business activities.

#### Operating expenses

Staff costs were Lm19.2 million, down on a prior year Lm19.6 million, reflecting a Lm0.5 million decrease in retirement benefits offset by performance related increases and the impact of a new collective agreement.

Other administrative expenses increased to Lm8.3 million from last year's Lm7.8 million, reflecting higher regulatory fees and the impact of an increased VAT charge. Depreciation was 3.9 per cent higher as a result of the increased carrying cost of tangible fixed assets.

The group's cost to income ratio improved to 51.1 per cent from 56.8 per cent in 2003.

#### Net impairment reversals

Net impairment reversals contributed Lm4.0 million to profitability. New specific allowances of Lm2.9 million and collective allowances of Lm0.4 million were raised and bad debt write-offs of Lm2.6 million were effected. An overall improvement in the credit quality of the lending book reduced non-performing loans from Lm107.8 million to Lm82.3 million. This contributed towards the reversing of Lm9.8 million in specific allowances.

The aggregate amount of non-performing customer advances represents 8.4 per cent of net loans and advances to customers (2003: 11.7 per cent) a trend which has been supported by ongoing debt recovery management and the focusing of new lending growth towards lower-risk market sectors.

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#### **Taxation**

The 2004 effective rate of tax was 33.0 per cent compared with 35.9 per cent in 2003.

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#### **Assets**

Total assets increased by Lm58.8 million to Lm1,597.8 million. Advances to deposits ratio increased to 76.0 per cent from a prior year end level of 72.8 per cent. Mortgage demand was strong. Redemptions from the held-to-maturity investment portfolio reduced this category of asset by Lm14.5 million to Lm120.9 million, whilst the available-for-sale book increased by Lm25.1 million through acquisitions. Treasury Bill holdings decreased from a prior year end level of Lm73.0 million to a year end level of Lm43.6 million. Life assurance product portfolios grew to Lm66.0 million from a prior year end level of Lm50.2 million.

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#### **Liabilities**

Liabilities increased by Lm55.4 million to Lm1,463.2 million. Amounts owed to customers increased by Lm21.6 million as the low interest rate environment persisted and consumer preferences were directed towards higher returns on equity linked funds. Amounts owed to banks increased by Lm16.0 million. Funds under management by the group reached Lm200.0 million, 15.4 per cent up from a prior year end level of Lm173.3 million. Long-term life assurance liabilities attributable to policyholders increased by Lm15.8 million during the year.

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#### **Shareholders' funds**

Shareholders' funds rose by Lm3.4 million to Lm134.6 million through the period. Lm6.5 million is carried in dividend reserves and supports the proposed final dividend distribution. Solvency ratio at 13.9 per cent reflects well supported capital adequacy levels. Net asset value per share at year end stands at Lm3.69.

## Report of the Directors

### Results for 2004

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The group reported a profit on ordinary activities before tax of Lm33.0 million for the year under review. The group's profit attributable to shareholders was Lm22.1 million.

A gross interim dividend of 54.8 cents per ordinary share was paid on 12 August 2004. The Directors have proposed a final dividend of 27.3 cents per ordinary share. Aggregate dividend will result in a total net distribution for the year under review of Lm19.5 million. The final dividend will be payable to shareholders on the bank's register on 16 February 2005.

Further information about the results is provided in the group profit and loss account on page 18.

### Principal activities

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#### Principal activities of parent company

The bank is authorised to carry on the business of banking under the Banking Act, 1994 as a credit institution. It is also an authorised dealer in terms of the Exchange Control Act (Cap. 233) and a licensed financial intermediary in terms of the Financial Markets Act, 1990. The bank also holds Category 3 and Category 4 Investment Services licences issued by the Malta Financial Services Authority in terms of the Investment Services Act, 1994. These licences authorise the bank to provide both investment services to third parties and trustee or custodian services for collective investment schemes.

The bank provides a comprehensive range of banking, financial and related services.

The bank had the following subsidiaries at 31 December 2004: HSBC Home Loans (Malta) Limited, HSBC Life Assurance (Malta) Limited, HSBC Fund Management (Malta) Limited, HSBC Stockbrokers (Malta) Limited and HSBC Investment Services (Malta) Limited.

#### Principal activities of subsidiaries

HSBC Home Loans (Malta) Limited is licensed as a credit institution under the Banking Act, 1994 and provides medium and long-term finance, principally to individuals for the purchase of personal dwellings. As from September 2001, the company ceased writing new home loans business or accepting customer deposits. From that date all home loans business is being written in the books of the bank to focus the mortgage proposition in one entity and provide a platform for the planned future merger of the company with the bank.

HSBC Life Assurance (Malta) Limited is licensed under the Insurance Business Act, 1998 and under the Investment Services Act, 1994. Its principal activities are to carry on life assurance business in Malta and to provide investment services in relation to linked long term contracts of insurance in Malta.

HSBC Fund Management (Malta) Limited acts as a manager and administrator of collective investment schemes. The company owns 99.9 per cent of HSBC Investment Services (Malta) Limited. HSBC Investment Services (Malta) Limited is licensed under the Investment Services Act, 1994 and is registered as an authorised financial intermediary.

HSBC Stockbrokers (Malta) Limited is registered under the Companies Act, 1995. The company is a member of the Malta Stock Exchange and is regulated under the Investment Services Act, 1994 by the Malta Financial Services Authority. The company is principally engaged in providing stockbroking business on the Malta Stock Exchange and to arrange/support the listing of stocks and shares on the Exchange.

### Business review

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A review of the business of the bank and its subsidiaries during the year under review and an indication of likely future developments are given in the "Chief Executive Officer's Review of Operations" on pages 4 to 6.

## **Audit committee**

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This committee, composed of independent non-executive directors, meets regularly with the bank's senior financial, internal audit and compliance management and the external auditors to consider the bank's financial reporting, the nature and scope of audit reviews, the effectiveness of the systems of internal control and compliance and the arm's length nature of related party transactions, including inter-related transactions with HSBC Group and Directors' interests. The members of the audit committee are Messrs Louis Farrugia, Victor Scicluna and Peter Paul Testaferrata Moroni Viani. Further reference to the activities of this committee are contained in the "Statement of Compliance with the Principles of Good Corporate Governance" on pages 12 to 14.

## **Valuation of freehold and long leasehold land and buildings**

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The group's freehold and long leasehold properties were revalued in accordance with its policy of valuation every year. As a result, the net book value of land and buildings increased by Lm1.3 million. Further details are included in note 20 of the "Notes on the Accounts".

## **Standard licence conditions**

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In accordance with paragraph 10.32 of the Investment Services Guidelines regulated by the Malta Financial Services Authority, licence holders are required to disclose any regulatory breaches of standard licence conditions in their annual report. During the year under review, there were no breaches of the standard licence conditions nor regulatory sanctions imposed by the Malta Financial Services Authority.

## **Board of Directors**

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The Directors who served during the year are as follows:

Albert Mizzi (Chairman)  
Shaun Wallis  
Martin Wilkins  
Dyfrig John  
Philip Farrugia Randon (appointed 1 June 2004)  
Charles John Farrugia (appointed 17 November 2004)  
Louis Farrugia  
Victor Scicluna  
Peter Paul Testaferrata Moroni Viani  
Chris Hothersall (resigned 1 September 2004)  
James Bonello (resigned 30 April 2004)

## **Auditors**

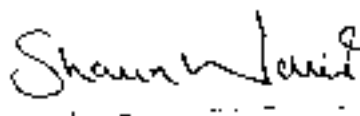
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KPMG have expressed their willingness to continue in office. A resolution proposing the reappointment of KPMG as auditors of the bank will be submitted at the forthcoming Annual General Meeting.

Approved by the Board of Directors on 11 February 2005 and signed on its behalf by:



Albert Mizzi, *Chairman*



Shaun Wallis, *Chief Executive Officer*

## Statement of Compliance with the Principles of Good Corporate Governance

As required by the Listing Rules of the Listing Authority, HSBC Bank Malta p.l.c. (the bank) hereby includes a Statement of Compliance which deals with the extent to which the bank has adopted the Code of Principles of Good Corporate Governance (the Principles) and the effective measures that the bank has taken to ensure compliance with these Principles.

### Compliance with the Principles

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Although the Principles are not mandatory, the Board of Directors (the Board) of the bank believes in their adoption, and has endorsed them except where there exist particular circumstances that warrant non-adherence thereto.

In line with the Principles, the Board's composition is a mixture of five executive directors, an independent non-executive chairman and three independent non-executive directors. Furthermore, the roles of the Chief Executive Officer and the Chairman are separate.

### Internal control

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The Board is ultimately responsible for the bank's system of internal control and for reviewing its effectiveness. Such procedures are designed to manage rather than to eliminate the risk of failure, to achieve business objectives and can only provide reasonable and not absolute assurance against material error, losses or fraud.

- Authority to operate the bank is delegated to the Chief Executive Officer within the limits set by the Board of the bank. Functional, operating and financial reporting standards are applicable within all entities of the HSBC Group. These are supplemented by operating standards set by the bank's management, as required.
- Systems and procedures are in place in the bank to identify, control and to report on the major risks including credit, changes in the market prices of financial instruments, liquidity, operational error and fraud. Exposure to these risks is monitored by the Asset and Liability Management Committee.
- Comprehensive annual financial plans are prepared, reviewed and approved by the Board. Results are monitored and reports on progress compared with plan are prepared monthly. Financial accounting and reporting and certain management reporting standards have been established. Centralised functional control is exercised over all computer system developments and operations. Common systems are employed where possible for similar business processes.
- Responsibilities for financial performance against plans and for capital expenditure, credit exposures and market risk exposures are delegated with limits to line management. In addition, functional management in the bank has been given the responsibility to set policies, procedures and standards in the areas of finance; legal and regulatory compliance; internal audit; human resources; credit; market risk; operational risk; computer systems and operations; property management; and for certain HSBC Group product lines.
- The internal audit function monitors compliance with policies and standards and the effectiveness of internal control structures within the bank and its subsidiaries. The work of the internal audit function focuses on areas of greatest risk as determined by a risk management approach.

Through the Audit Committee, the Board reviews the processes and procedures to ensure the effectiveness of the system of internal control of the bank and its subsidiaries, which are monitored by internal audit.

### Appointment/election of Directors

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The Memorandum of Association of the bank specifically regulates the appointment of Directors. The Board consists of not more than nine Directors who are appointed/elected by the shareholders. Every shareholder owning 11 per cent of the ordinary share capital is entitled to appoint one Director. The majority shareholder therefore has the right to appoint six Directors. Furthermore, any excess fractional shareholding not so utilised may be used to participate in the voting for the election of further Directors. Shareholders who own less than 11 per cent of the ordinary share capital participate in the election of the remaining three Directors.

The largest single shareholder (subject to a minimum 33 per cent holding of the ordinary issued share capital of the company), is entitled to appoint a chairman from amongst the Directors appointed or elected to the Board. Every poll for the election of Directors is overseen by the bank's external auditors.

## The Board of Directors

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The Board has delegated specific authority to the Chief Executive Officer to manage the activities of the bank within the limits set up by it. In line with the nature and demands of the bank's business, the Board meets at least four times each year unless further meetings are required. Directors have access to independent legal advice at the bank's expense where the Board deems appropriate. The Board concentrates primarily on strategy, policy setting, business plans and financial information.

On joining the Board, a Director is provided with a handbook containing the main provisions of law, which regulate his office. The Directors receive monthly financial information, regular updates on the working of all of the bank's subsidiary companies, and periodic updates by the Heads of Audit, Credit, Compliance and Marketing.

None of the Directors are employed with the bank on a definite service contract. Those Directors who are employed with the bank are so employed on an indefinite basis. Directors' remuneration is being disclosed in aggregate rather than as separate figures for each director as required by the Principles.

Directors' remuneration for the financial year under review:

– Directors' fees	Lm41,000
– Directors' emoluments as full-time bank employees	Lm237,000

No Director is entitled to profit sharing, share options, pension benefits (other than performance-related bonus awards) or any other remuneration, directly from the bank.

Executive Directors may be entitled to HSBC Holdings plc share options as detailed in note 8 of the "Notes on the Accounts" and certain pension and early retirement benefits.

The Directors' fees are approved in aggregate by shareholders at the Annual General Meeting. Those Directors who are employed with the bank are not paid any fees for their directorship.

## Committees

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### Audit committee

This committee meets at least four times a year. Its terms of reference are modelled mainly on the recommendations in the Cadbury Report and the Principles noted above. Its members are Messrs Louis Farrugia (chairman), Victor Scicluna and Peter Paul Testaferrata Moroni Viani, who are independent non-executive directors. Executives of the bank are available to attend any of the meetings as directed by the committee. Normally, the Chief Executive Officer, the Chief Operating Officer, the Head of Audit and Head of Compliance and a representative of the external auditors attend the meetings. The Head of Audit has a right of direct access to the chairman of the committee at all times.

### Nominations committee

In view of the aforementioned rules governing the appointment/election of Directors, the Board decided that a nominations committee is not appropriate. For the same reason a succession policy for Directors cannot be established.

### Remuneration committee

The Board has decided that there is no scope for such a committee where the remuneration of top-level executives (including those who are also Directors) is established by a foreign parent company on the basis of internationally established criteria. Furthermore, the risk that a Director fixes his own salary or fees does not arise since the remuneration of the Chairman and that of the three non-executive Directors elected at the general meeting is established by the Board without the participation and in the absence of the said individuals.

Remuneration of the bank's executives is based on predetermined parameters established in conjunction with HSBC Bank plc.

## Statement of Compliance with the Principles of Good Corporate Governance (continued)

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### Asset and liability management committee ('ALCO')

This committee reviews the following balance sheet risks and ensures their prudent management: interest rate risk, liquidity and funding, foreign exchange risk, and credit and counterparty risk using a portfolio approach (including market sector risk) and country risk. Furthermore, ALCO monitors the external environment and measures the impact on profitability of factors such as interest rate volatility, market liquidity, exchange rate volatility, monetary and fiscal policies and competitor bank actions.

The Chief Executive Officer has primary responsibility for ensuring efficient development of asset and liability management. Membership consists of senior executives with responsibility for the following functions: corporate banking, retail banking, treasury, financial control, marketing, and credit.

The ALCO, which is chaired by the Chief Executive Officer and deputised by the Chief Operating Officer, meets once a month.

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### Shareholders

The principal contact with shareholders takes place via the annual and extraordinary general meetings. These meetings are called with sufficient notice and enable the use of proxies to attend, vote or abstain. Matters before an extraordinary general meeting are considered extraordinary business and sufficient explanation of the proposals is provided in advance of the meeting for proper evaluation by the shareholders.

Besides these meetings, the bank has each year for the past three years held shareholders meetings where senior executives of the bank hold a dialogue with shareholders without a fixed agenda. These meetings have proved to be beneficial both for the bank and shareholders alike.

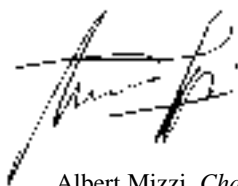
Regular contact with shareholders is also maintained via company announcements.

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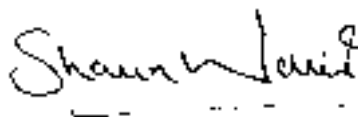
### Directors' dealings

On joining the Board and regularly thereafter, Directors are informed and reminded of their obligations on dealing in securities of the bank within the parameters of law and the Listing Rules. A proper procedure of reporting advanced notices has been endorsed by the Board in line with the Principles and the Listing Rules.

On behalf of the Board



Albert Mizzi, *Chairman*



Shaun Wallis, *Chief Executive Officer*



## Report of the Auditors to the Members of HSBC Bank Malta p.l.c. pursuant to Listing Rule 8.28 issued by the Listing Authority

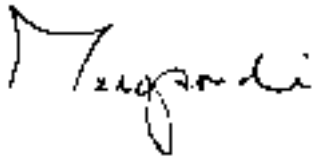
Listing Rules 8.26 and 8.27 issued by the Listing Authority, require the bank's Directors to include in their annual report a statement of compliance to the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures they have taken to ensure compliance with these Principles.

Our responsibility, as auditors of the bank, is laid down by Listing Rule 8.28, which requires us to include a report on this statement of compliance.

We read the statement of compliance and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with these financial statements. Our responsibilities do not extend to considering whether this statement is consistent with other information included in the annual report.

We are not required to, and we do not, consider whether the Board's statement on internal control included in the statement of compliance covers all risks and controls, or form an opinion on the effectiveness of the bank's corporate governance procedures or its risk and control procedures, nor on the ability of the bank to continue in operational existence.

In our opinion, the statement of compliance set out on pages 12 to 14 provides the disclosures required by the Listing Rules 8.26 and 8.27 issued by the Listing Authority.



*Ray Azzopardi (Partner) for and on behalf of*

KPMG  
*Certified Public Accountants*  
Portico Building  
Marina Street  
Pietà  
Malta

11 February 2005

## Statement of Directors' Responsibilities in Relation to Financial Statements

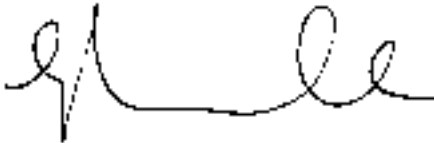
The following statement, which should be read in conjunction with the Report of the Auditors on page 17, is made to enable shareholders to distinguish between the respective responsibilities of the Directors and Auditors in relation to financial statements.

The Companies Act, 1995 requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the bank and the group as at the end of the financial period and of the profit or loss of the bank and the group for that period.

In preparing the financial statements, the Directors are required to:

- adopt the going concern basis unless it is inappropriate;
- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- account for income and charges relating to the accounting period on the accruals basis;
- value separately the components of asset and liability items; and
- report comparative figures corresponding to those of the preceding accounting period.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the bank and the group and to enable them to ensure that the financial statements have been properly prepared in accordance with the Companies Act, 1995 and the Banking Act, 1994. They are also responsible for safeguarding the assets of the bank and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



On behalf of the Board  
George Brancaleone, *Company Secretary*  
11 February 2005

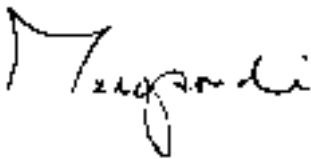
## Report of the Auditors to the Members of HSBC Bank Malta p.l.c.

We have audited the financial statements set out on pages 18 to 55. As described on page 16, these financial statements are the responsibility of the bank's Directors. Our responsibility is to express an opinion on the financial statements based on our audit. We are also required to report whether we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit, whether in our opinion proper books of account have been kept by the bank so far as appears from our examination thereof and whether the financial statements are in agreement with the books.

We conducted our audit in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit. In our opinion, proper books of account have been kept by the bank so far as appears from our examination thereof. The financial statements are in agreement with the books.

In our opinion, the financial statements give a true and fair view of the state of affairs of the bank and the group as at 31 December 2004 and of the profit and cash flows for the year then ended in accordance with the requirements of International Financial Reporting Standards, promulgated by the International Accounting Standards Board, and have been properly prepared in accordance with the provisions of the Companies Act, 1995 and the Banking Act, 1994, enacted in Malta.



*Ray Azzopardi (Partner) for and on behalf of*

KPMG  
*Certified Public Accountants*  
Portico Building  
Marina Street  
Pietà  
Malta

11 February 2005

## Profit and Loss Account for the year 1 January 2004 to 31 December 2004

	Note	Group		Bank	
		2004 Lm000	2003 Lm000	2004 Lm000	2003 Lm000
Interest receivable and similar income					
– on loans and advances, balances with					
Central Bank of Malta and Treasury Bills	3	56,574	58,648	53,088	54,679
– on debt and other fixed income instruments	3	10,410	10,712	11,817	12,017
Interest payable	4	(27,505)	(34,660)	(27,717)	(34,637)
<b>Net interest income</b>		<b>39,479</b>	<b>34,700</b>	<b>37,188</b>	<b>32,059</b>
Fees and commissions receivable		10,105	10,805	7,685	8,841
Fees and commissions payable		(759)	(659)	(646)	(607)
Dividend income	5	117	125	5,709	125
Trading profits	6	6,562	5,817	6,552	5,779
Net gains on disposal of					
non-trading financial instruments	7	1,716	649	1,019	700
Other operating income		2,201	1,931	50	21
<b>Operating income</b>		<b>59,421</b>	<b>53,368</b>	<b>57,557</b>	<b>46,918</b>
Administrative expenses	8	(27,407)	(27,325)	(26,548)	(26,630)
Depreciation		(2,745)	(2,643)	(2,680)	(2,574)
Amortisation of goodwill		(339)	(291)	(189)	(205)
Other operating charges		(206)	(322)	(206)	(320)
<b>Operating profit before impairment</b>					
<b>reversals and provisions</b>		<b>28,724</b>	<b>22,787</b>	<b>27,934</b>	<b>17,189</b>
Net impairment reversals	9	4,012	3,386	3,649	2,937
Reversals/(provisions) for liabilities					
and other charges		301	(9)	301	(9)
<b>Profit on ordinary activities before tax</b>	10	<b>33,037</b>	<b>26,164</b>	<b>31,884</b>	<b>20,117</b>
Tax on profit on ordinary activities	11	(10,907)	(9,383)	(10,688)	(7,352)
<b>Profit for the financial year</b>					
<b>attributable to shareholders</b>		<b>22,130</b>	<b>16,781</b>	<b>21,196</b>	<b>12,765</b>
<b>Earnings per share</b>	12	<b>60.7c</b>	<b>46.0c</b>	<b>58.1c</b>	<b>35.0c</b>

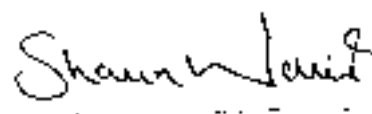
**Balance Sheet at 31 December 2004**

	<i>Note</i>	<i>Group</i>		<i>Bank</i>	
		<b>2004</b>	2003	<b>2004</b>	2003
		<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
<b>Assets</b>					
Balances with Central Bank of Malta,					
Treasury Bills and cash	13	<b>106,806</b>	133,574	<b>106,781</b>	133,512
Cheques in course of collection		<b>4,458</b>	5,637	<b>4,458</b>	5,637
Financial assets held for trading	14	<b>4,826</b>	2,444	<b>4,826</b>	2,444
Investments	15	<b>245,737</b>	235,059	<b>268,226</b>	256,191
Loans and advances to banks	16	<b>131,281</b>	130,700	<b>172,363</b>	187,945
Loans and advances to customers	17	<b>979,446</b>	922,526	<b>888,018</b>	813,101
Shares in subsidiary companies	18	–	–	<b>42,023</b>	41,602
Intangible fixed assets	19	<b>1,022</b>	1,762	<b>964</b>	1,528
Tangible fixed assets	20	<b>30,647</b>	30,511	<b>30,620</b>	30,458
Deferred tax asset	26	–	1,607	–	2,195
Other assets	21	<b>76,912</b>	59,102	<b>2,231</b>	1,246
Prepayments and accrued income	22	<b>16,634</b>	16,062	<b>15,716</b>	15,432
<b>Total assets</b>		<b><u>1,597,769</u></b>	<u>1,538,984</u>	<b><u>1,536,226</u></b>	<u>1,491,291</u>
<b>Liabilities</b>					
Financial liabilities held for trading	14	<b>9,917</b>	8,611	<b>9,917</b>	8,611
Amounts owed to banks	23	<b>48,336</b>	32,367	<b>48,336</b>	32,368
Amounts owed to customers	24	<b>1,288,940</b>	1,267,378	<b>1,296,687</b>	1,271,058
Debt securities in issue	25	<b>12</b>	12	–	–
Deferred tax liability	26	<b>2,318</b>	–	<b>625</b>	–
Other liabilities	27	<b>78,546</b>	62,080	<b>11,195</b>	11,032
Accruals and deferred income	28	<b>15,101</b>	15,676	<b>14,818</b>	15,419
Provisions for liabilities and other charges	29	<b>26</b>	1,698	<b>26</b>	1,746
Subordinated liabilities	30	<b>20,000</b>	20,000	<b>20,000</b>	20,000
		<b><u>1,463,196</u></b>	<u>1,407,822</u>	<b><u>1,401,604</u></b>	<u>1,360,234</u>
<b>Shareholders' funds</b>					
Called up share capital	31	<b>9,120</b>	9,120	<b>9,120</b>	9,120
Revaluation reserves	32	<b>11,086</b>	10,978	<b>33,265</b>	32,069
Other reserve	32	<b>4,242</b>	4,242	<b>4,242</b>	4,242
Profit and loss account		<b>103,652</b>	100,989	<b>81,522</b>	79,793
Dividend reserve		<b>6,473</b>	5,833	<b>6,473</b>	5,833
		<b><u>134,573</u></b>	<u>131,162</u>	<b><u>134,622</u></b>	<u>131,057</u>
<b>Total liabilities and shareholders' funds</b>		<b><u>1,597,769</u></b>	<u>1,538,984</u>	<b><u>1,536,226</u></b>	<u>1,491,291</u>
<b>Memorandum items</b>					
Contingent liabilities	33	<b><u>44,127</u></b>	<u>38,818</u>	<b><u>44,537</u></b>	<u>39,238</u>
Commitments	34	<b><u>330,584</u></b>	<u>297,631</u>	<b><u>346,758</u></b>	<u>315,397</u>

The financial statements on pages 18 to 55 were approved by the Board of Directors on 11 February 2005 and signed on its behalf by:



Albert Mizzi, *Chairman*



Shaun Wallis, *Chief Executive Officer*

## Statement of Changes in Equity for the year 1 January 2004 to 31 December 2004

	<i>Group</i>					
	<i>Called up share capital</i>	<i>Revaluation reserves</i>	<i>Other reserve</i>	<i>Profit and loss account</i>	<i>Dividend reserve</i>	<i>Total</i>
	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>
At 1 January 2003	9,120	7,933	4,242	92,572	3,130	116,997
Release of net gains on available-for-sale assets transferred to the profit and loss account on disposal	–	(610)	–	30	–	(580)
Net fair value adjustments on investments	–	3,239	–	–	–	3,239
Surplus on revaluation of freehold and long leasehold properties	–	416	–	–	–	416
Net gains not recognised in the profit and loss account	–	3,045	–	30	–	3,075
Profit attributable to shareholders	–	–	–	16,781	–	16,781
Dividends	–	–	–	(8,394)	8,394	–
Dividends paid	–	–	–	–	(5,691)	(5,691)
At 31 December 2003	<u>9,120</u>	<u>10,978</u>	<u>4,242</u>	<u>100,989</u>	<u>5,833</u>	<u>131,162</u>
At 1 January 2004	<u>9,120</u>	<u>10,978</u>	<u>4,242</u>	<u>100,989</u>	<u>5,833</u>	<u>131,162</u>
Release of net gains on available-for-sale assets transferred to the profit and loss account on disposal	–	(1,357)	–	–	–	(1,357)
Net fair value adjustments on investments	–	615	–	–	–	615
Surplus on revaluation of freehold and long leasehold properties	–	850	–	–	–	850
Net gains not recognised in the profit and loss account	–	108	–	–	–	108
Profit attributable to shareholders	–	–	–	22,130	–	22,130
Dividends	–	–	–	(19,467)	19,467	–
Dividends paid	–	–	–	–	(18,827)	(18,827)
At 31 December 2004	<u>9,120</u>	<u>11,086</u>	<u>4,242</u>	<u>103,652</u>	<u>6,473</u>	<u>134,573</u>

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		<i>Bank</i>					
	<i>Called up share capital</i>	<i>Revaluation reserves</i>	<i>Other reserve</i>	<i>Profit and loss account</i>	<i>Dividend reserve</i>	<i>Total</i>	
<i>Note</i>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	
At 1 January 2003	9,120	24,939	4,242	75,392	3,130	116,823	
Release of net gains on available-for-sale assets transferred to the profit and loss account on disposal	–	(661)	–	30	–	(631)	
Net fair value adjustments on investments	–	7,375	–	–	–	7,375	
Surplus on revaluation of freehold and long leasehold properties	–	416	–	–	–	416	
Net gains not recognised in the profit and loss account	–	7,130	–	30	–	7,160	
Profit attributable to shareholders	–	–	–	12,765	–	12,765	
Dividends	–	–	–	(8,394)	8,394	–	
Dividends paid	–	–	–	–	(5,691)	(5,691)	
At 31 December 2003	<u>9,120</u>	<u>32,069</u>	<u>4,242</u>	<u>79,793</u>	<u>5,833</u>	<u>131,057</u>	
At 1 January 2004	<u>9,120</u>	<u>32,069</u>	<u>4,242</u>	<u>79,793</u>	<u>5,833</u>	<u>131,057</u>	
Release of net gains on available-for-sale assets transferred to the profit and loss account on disposal	–	(660)	–	–	–	(660)	
Net fair value adjustments on investments	–	1,006	–	–	–	1,006	
Surplus on revaluation of freehold and long leasehold properties	–	850	–	–	–	850	
Net gains not recognised in the profit and loss account	–	1,196	–	–	–	1,196	
Profit attributable to shareholders	–	–	–	21,196	–	21,196	
Dividends	–	–	–	(19,467)	19,467	–	
Dividends paid	–	–	–	–	(18,827)	(18,827)	
At 31 December 2004	<u>9,120</u>	<u>33,265</u>	<u>4,242</u>	<u>81,522</u>	<u>6,473</u>	<u>134,622</u>	

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## Cash Flow Statement for the year 1 January 2004 to 31 December 2004

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
<i>Note</i>	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
<b>Cash flows from operating activities</b>				
Interest and commission receipts	<b>69,537</b>	73,413	<b>63,919</b>	67,914
Interest and commission payments	<b>(30,276)</b>	(39,214)	<b>(30,256)</b>	(39,116)
Payments to employees and suppliers	<b>(25,841)</b>	(25,756)	<b>(25,133)</b>	(24,966)
Operating profit before changes in operating assets/liabilities	<b>13,420</b>	8,443	<b>8,530</b>	3,832
(Increase)/decrease in operating assets:				
Trading instruments	<b>(1,742)</b>	(209)	<b>(1,742)</b>	(209)
Reserve deposits with Central Bank of Malta	<b>(4,827)</b>	5,756	<b>(4,841)</b>	5,736
Loans and advances to banks	<b>(7,079)</b>	4,431	<b>(7,080)</b>	4,432
Loans and advances to customers	<b>(52,913)</b>	(29,220)	<b>(71,273)</b>	(47,962)
Treasury Bills with contractual maturity of over three months	<b>30,701</b>	9,004	<b>30,700</b>	9,000
Cheques in course of collection	<b>1,179</b>	(1,651)	<b>1,179</b>	(1,651)
Other receivables	<b>(16,122)</b>	(23,027)	<b>325</b>	(344)
Increase/(decrease) in operating liabilities:				
Amounts owed to banks	<b>14,561</b>	(14,550)	<b>14,560</b>	(15,102)
Amounts owed to customers	<b>23,234</b>	(28,844)	<b>27,297</b>	(20,758)
Other payables	<b>18,415</b>	24,115	<b>(70)</b>	3,094
Net cash from/(used in) operating activities before tax	<b>18,827</b>	(45,752)	<b>(2,415)</b>	(59,932)
Tax paid	<b>(10,412)</b>	(6,239)	<b>(9,504)</b>	(5,459)
Net cash flows from/(used in) operating activities	<b>8,415</b>	(51,991)	<b>(11,919)</b>	(65,391)
<b>Cash flows from investing activities</b>				
Dividends received	<b>77</b>	125	<b>3,887</b>	125
Interest received from available-for-sale debt and other fixed income instruments	<b>5,083</b>	5,196	<b>5,083</b>	5,196
Interest received from held-to-maturity debt and other fixed income instruments	<b>7,429</b>	8,083	<b>8,802</b>	8,824
Proceeds on disposal of available-for-sale instruments	<b>10,814</b>	9,986	<b>5,224</b>	7,095
Proceeds on maturity of held-to-maturity debt and other fixed income instruments	<b>70,488</b>	72,588	<b>70,488</b>	67,395
Proceeds on disposal of tangible fixed assets	<b>52</b>	26	<b>47</b>	26
Purchase of available-for-sale instruments	<b>(35,332)</b>	(1,812)	<b>(30,764)</b>	(741)
Purchase of held-to-maturity debt and other fixed income instruments	<b>(57,805)</b>	(50,295)	<b>(57,805)</b>	(50,295)
Purchase of tangible fixed assets	<b>(1,276)</b>	(5,286)	<b>(1,244)</b>	(5,225)
Purchase of intangible fixed assets	<b>(86)</b>	(66)	<b>(81)</b>	(66)
Net cash flows (used in)/from investing activities	<b>(556)</b>	38,545	<b>3,637</b>	32,334
<b>Cash flows from financing activities</b>				
Dividends paid	<b>(18,827)</b>	(5,691)	<b>(18,827)</b>	(5,691)
Cash used in financing activities	<b>(18,827)</b>	(5,691)	<b>(18,827)</b>	(5,691)
<b>Decrease in cash and cash equivalents</b>	<b>(10,968)</b>	(19,137)	<b>(27,109)</b>	(38,748)
Effect of exchange rate changes on cash and cash equivalents	<b>(1,139)</b>	(6,066)	<b>(1,139)</b>	(6,021)
Net decrease in cash and cash equivalents	<b>(9,829)</b>	(13,071)	<b>(25,970)</b>	(32,727)
	<b>(10,968)</b>	(19,137)	<b>(27,109)</b>	(38,748)
Cash and cash equivalents at beginning of year	<b>108,019</b>	127,156	<b>165,217</b>	203,965
<b>Cash and cash equivalents at end of year</b>	<b>97,051</b>	108,019	<b>138,108</b>	165,217

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## Notes on the Accounts

### 1 Basis of preparation

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The consolidated financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards promulgated by the International Accounting Standards Board, and the provisions of the Companies Act, 1995 and the Banking Act, 1994, enacted in Malta.

The financial statements are prepared under the historical cost convention as modified by the revaluation of financial assets held for trading, available-for-sale assets, derivative financial instruments and land and buildings.

The accounting policies have been consistently applied by the group, except for gains and losses on subsequent measurement of available-for-sale financial assets held by HSBC Life Assurance (Malta) Limited which have been recognised in the profit and loss account and not in equity.

### 2 Significant accounting policies

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#### a Basis of consolidation

The consolidated financial statements comprise the financial statements of HSBC Bank Malta p.l.c. ('bank') and its subsidiary companies ('group').

All significant intra-group transactions have been eliminated on consolidation.

Goodwill arising on acquisition, being the difference between the cost of the investment and the group's share of the fair value of the net identifiable assets of subsidiary undertakings, is recognised as an intangible asset and amortised on a straight-line basis over five years.

#### b Revenue recognition

Interest income is recognised in the profit and loss account as it accrues.

Fee income is accounted for in the period when receivable, except where the fee is charged to cover the cost of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised on an appropriate basis over the relevant period.

Dividend income is accounted for when the right to receive dividend income is established.

#### c Financial instruments

##### i Classification

*Trading instruments* are those that the group principally holds for the purpose of short-term profit taking. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as trading assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as trading liabilities.

*Originating loans and receivables* are loans and receivables created by the group providing money to a debtor other than those created with the intention of short-term profit taking.

*Held-to-maturity assets* are financial assets with fixed or determinable payments and fixed maturity that the group has the intent and ability to hold to maturity.

*Available-for-sale assets* are financial assets that are not held for trading purposes, originated by the group, or held-to-maturity.

##### ii Recognition

The group recognises financial assets held for trading and available-for-sale assets on the date it commits to purchase the assets. From this date any gains or losses arising from changes in fair value of the assets are recognised.

Held-to-maturity instruments and originating loans and receivables are recognised on the day they are transferred to the group.

## Notes on the Accounts (continued)

### 2 Significant accounting policies (continued)

#### c Financial instruments (continued)

##### iii Measurement

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all trading instruments and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, originating loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised over the period to maturity based on the effective interest rate of the instrument.

##### iv Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange traded is estimated at the amount that the group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

##### v Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of available-for-sale assets are recognised directly in equity. When financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss recognised in equity is transferred to the profit and loss account.

Gains and losses arising from a change in the fair value of trading instruments are recognised in the profit and loss account.

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#### d Derecognition

A financial asset is derecognised when the group loses control over the contractual rights that comprise the asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets and assets held for trading that are sold, are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the group commits to sell the assets.

Held-to-maturity instruments and originating loans and receivables are derecognised on the day they are transferred by the group.

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#### e Repurchase transactions

The group enters into purchases of investments under agreement to resell substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell at future dates are not recognised. The amounts paid are recognised in loans and advances to either banks or customers. The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for either assets held for trading or available-for-sale as appropriate. The proceeds from sale of the investments are reported as liabilities to either banks or customers.

The difference between the sale and repurchase consideration is recognised on an accrual basis over the period of the transactions and is included in interest.

## 2 Significant accounting policies (continued)

### f Impairment

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indications exist, the asset's recoverable amount is estimated.

#### i Originating loans and receivables

The recoverable amount of originating loans and receivables represents the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

Loans and advances are presented net of specific and collective allowances for uncollectibility.

Specific allowances are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts.

Collective allowances are maintained to reduce the carrying amount of portfolios of similar loans and advances to their estimated recoverable amounts at the balance sheet date. The expected cash flows for portfolios with similar risk characteristics are estimated based on previous experience and considering the current market conditions for each of the underlined portfolios.

Increases in allowances are recognised in the profit and loss account. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off. If in a subsequent period the amount of an impairment loss decreases, and the decrease can be linked objectively to an event occurring after the write-down, the write-down or allowance is reversed through the profit and loss account.

#### ii Financial assets remeasured to fair value directly through equity

The recoverable amount of an equity instrument is its fair value. The recoverable amount of debt instruments remeasured to fair value represents the present value of expected future cash flows discounted at the current market rate of interest.

Where an asset remeasured to fair value directly through equity is impaired, and a write-down of the asset was previously recognised directly in equity, the write-down is transferred to the profit and loss account and recognised as part of the impairment loss. Where an increase in fair value of an asset was previously recognised in equity, the increase recognised in equity is reversed. Any additional impairment loss is recognised in the profit and loss account.

If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after write-down, the write-down is reversed through the profit and loss account.

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### g Investment in subsidiary companies

The bank's investment in subsidiary companies is measured to fair value. Revaluation adjustments are recognised in the revaluation reserve.

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### h Tangible fixed assets and depreciation

Land, buildings and improvements thereto are stated at valuation or cost less depreciation calculated to write off the assets over their estimated useful lives as follows:

- long leaseholds (over 50 years), freehold land and buildings and improvements thereto are depreciated over 50 years.
- short leaseholds and improvements to rented property are depreciated over the period of the lease or rental.

Equipment and fixtures and fittings are stated at cost less accumulated depreciation calculated on the straight-line basis to write off the assets over their estimated useful lives, which are generally between 5 years and 10 years.

Freehold and long leasehold properties are revalued to fair value on the basis of their existing use annually. Any surpluses arising on such revaluation are credited to a revaluation reserve. Any deficiencies resulting from decreases in value are deducted from this reserve to the extent that it is sufficient to absorb them, and charged to the profit and loss account thereafter.

At balance sheet date, the carrying amounts of tangible assets are reviewed for indication of impairment.

## Notes on the Accounts (continued)

### 2 Significant accounting policies (continued)

#### i Intangible fixed assets

Intangible fixed assets are amortised on a straight-line basis over their estimated useful economic lives as follows:

- purchased goodwill            five years
- software                            five years

At balance sheet date, the carrying amounts of intangible assets are reviewed for indication of impairment.

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#### j Finance and operating leases

Assets leased to customers under agreements which transfer substantially all the risks and rewards associated with ownership, other than legal title, are classified as finance leases. Where the group is a lessor under finance leases, the amounts receivable under finance leases, and under hire purchase contracts which are in the nature of finance leases, after deduction of unearned charges, are included under loans and advances to banks or loans and advances to customers. Finance charges receivable are recognised over the periods of the leases in proportion to the funds invested after taking into account the effects of taxation.

Where the group is a lessee under finance leases, the leased assets are capitalised and included in 'Tangible fixed assets' and the corresponding liability to the lessor is included in 'Other liabilities'. Finance charges payable are recognised over the periods of the leases based on the interest rates implicit in the leases.

All other leases are classified as operating leases and rentals payable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in administrative expenses.

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#### k Value of in-force life assurance business

A valuation of future earnings expected to emerge from life assurance business currently in force is determined annually by the Directors. The value of in-force life assurance business is based on the advice of the group's Appointed Actuary. The valuation represents the discounted value of projected future transfers to shareholders from life assurance business currently in force, after adjusting for the effective rate of taxation. In determining this valuation, assumptions relating to the future mortality, persistency and levels of expenses are based on experience of the type of business concerned. Gross investment returns are assumed to vary depending on the mix of investments held by the life assurance subsidiary and expected market conditions.

Annual movements in the value of in-force life assurance business are credited or debited to the profit and loss account.

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#### l Long-term assurance business

The long-term business provision in respect of life assurance is determined by the group's Appointed Actuary following his annual investigation of the long-term business and the reserve is calculated on a statutory solvency basis to comply with the reporting requirements under the Insurance Business Act, 1998 and Regulations.

The calculation for non-linked business uses the net premium valuation method and represents the discounted value of projected future cash flows from policies in force at financial year end, making use of assumptions regarding interest, mortality and disability. Unit-linked liabilities are determined as the value of units attaching to individual policies plus a non-unit reserve in respect of mortality and expense risks.

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#### m Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred income taxes are provided for using the balance sheet liability method of accounting for income taxes under which deferred tax consequences are recognised for all temporary differences, being differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable income will be available against which the deductible temporary differences can be utilised. The amount of deferred taxation on these differences is determined by using the rate of local income tax applicable at balance sheet date.

## 2 Significant accounting policies (continued)

### n Retirement benefits

The group contributes towards the State pension in accordance with local legislation. This cost is expensed during the period in which it is incurred.

The group has voluntary early retirement schemes currently in place. Termination benefits payable under these schemes are recognised as a liability and as an expense in the profit and loss account of the period during which the commitment to pay these benefits is established. Termination benefits which fall due more than 12 months after the balance sheet date are discounted using rates reflecting market yields on government bonds which have a remaining maturity consistent with the estimated term of the termination benefits.

### o Foreign currencies

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit and loss account, except for gains and losses resulting from the translation of available-for-sale non-monetary assets, that are recognised in equity. Non-monetary assets and liabilities denominated in foreign currencies, that are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the reporting currency at the foreign exchange rates ruling at the dates that the values were determined.

### p Cash and cash equivalents

Cash and cash equivalents comprise:

- cash in hand;
- balances with Central Bank of Malta excluding reserve deposit requirement;
- Treasury Bills with originating maturity of less than three months;
- deposits repayable on demand or with a contractual period to maturity of less than three months, with any bank or financial institution; and
- advances from banks repayable within three months from the date of the advance.

### q Segmental information

A segment is a distinguishable component of the group that is engaged either in providing products or services to a particular customer group (business segment), or in providing products or services within a particular economic environment (geographic segment), which is subject to risks and rewards that are different from those of other segments.

## 3 Interest receivable and similar income

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
On loans and advances to banks	<b>3,199</b>	3,464	<b>4,671</b>	5,807
On loans and advances to customers	<b>49,451</b>	50,670	<b>44,494</b>	44,363
On balances with Central Bank of Malta	<b>1,733</b>	1,758	<b>1,733</b>	1,757
On Treasury Bills	<b>2,180</b>	2,747	<b>2,179</b>	2,743
On lease receivables	<b>11</b>	9	<b>11</b>	9
	<b>56,574</b>	58,648	<b>53,088</b>	54,679
On debt and other fixed income instruments	<b>11,515</b>	12,018	<b>12,890</b>	13,255
Net amortisation of premiums	<b>(1,105)</b>	(1,306)	<b>(1,073)</b>	(1,238)
	<b>10,410</b>	10,712	<b>11,817</b>	12,017
	<b>66,984</b>	69,360	<b>64,905</b>	66,696

**Notes on the Accounts** (continued)**4 Interest payable**

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
On amounts owed to banks	<b>562</b>	424	<b>562</b>	430
On amounts owed to customers	<b>25,111</b>	32,365	<b>25,324</b>	32,337
On debt securities in issue	<b>1</b>	1	–	–
On subordinated liabilities	<b>1,450</b>	1,450	<b>1,450</b>	1,450
On trading financial instruments	<b>381</b>	420	<b>381</b>	420
	<b>27,505</b>	34,660	<b>27,717</b>	34,637

**5 Dividend income**

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
From equity shares	<b>117</b>	125	<b>117</b>	125
From subsidiary companies	–	–	<b>5,592</b>	–
	<b>117</b>	125	<b>5,709</b>	125

**6 Trading profits**

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Profit on foreign exchange activities	<b>6,921</b>	6,355	<b>6,911</b>	6,317
Price movements on trading financial instruments	<b>(359)</b>	(684)	<b>(359)</b>	(684)
Net gains on sale of trading financial instruments	–	146	–	146
	<b>6,562</b>	5,817	<b>6,552</b>	5,779

Included in trading profits are unrealised gains relating to trading financial instruments amounting to Lm151,000 (2003: Lm100,000) in respect of the group and the bank.

**7 Net gains on disposal of non-trading financial instruments**

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Available-for-sale assets				
– net gains/(losses) on disposal	<b>3</b>	(270)	<b>3</b>	(270)
– net revaluation gains transferred from equity	<b>1,713</b>	919	<b>1,016</b>	970
	<b>1,716</b>	649	<b>1,019</b>	700

## 8 Administrative expenses

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Staff costs				
– wages, salaries and allowances	<b>16,570</b>	16,456	<b>16,084</b>	15,963
– social security costs	<b>971</b>	989	<b>942</b>	961
– retirement benefits	<b>1,610</b>	2,108	<b>1,496</b>	2,108
Other administrative expenses	<b>8,256</b>	7,772	<b>8,026</b>	7,598
	<b>27,407</b>	27,325	<b>26,548</b>	26,630
	<i>Number</i>	<i>Number</i>	<i>Number</i>	<i>Number</i>
Average number of employees				
– executive and senior managerial	<b>210</b>	203	<b>198</b>	187
– other managerial, supervisory and clerical	<b>1,279</b>	1,291	<b>1,228</b>	1,204
– others	<b>81</b>	100	<b>81</b>	99
	<b>1,570</b>	1,594	<b>1,507</b>	1,490

In order to align the interests of staff with those of shareholders, share options in ordinary shares of the ultimate parent company are offered to group employees under all-employee share plans and awarded to group employees under discretionary incentive plans.

Under the HSBC Holdings savings-related share option plans, options are offered for nil consideration at an exercise price equivalent to the average market value over the five business days immediately preceding the date of the award, and discounted at a rate of 20 per cent for options offered since 2001 and 15 per cent for options offered before 2001. The options are exercisable either on the third or fifth anniversary of the commencement of the relevant savings contract.

Options awarded under the discretionary HSBC Holdings Group Share Option Plan are granted for nil consideration at an exercise price which is the higher of the average market value over the five business days immediately preceding the date of the award and the closing price on the date of grant. Subject to the attainment of certain performance criteria the options are exercisable between the third and tenth anniversary of grant.

## 9 Net impairment reversals

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
<b>Write-downs</b>				
Loans and advances to customers				
– specific allowances	<b>(2,903)</b>	(3,312)	<b>(2,897)</b>	(3,312)
– collective allowances	<b>(413)</b>	–	<b>(827)</b>	–
– bad debts written off	<b>(2,616)</b>	(1,304)	<b>(2,571)</b>	(1,266)
	<b>(5,932)</b>	(4,616)	<b>(6,295)</b>	(4,578)
<b>Reversals of write-downs</b>				
Investments				
– debt and other fixed income instruments	–	750	–	750
– equity and other non-fixed income instruments	<b>5</b>	–	<b>5</b>	–
Loans and advances to customers				
– specific allowances	<b>9,776</b>	4,614	<b>9,776</b>	4,609
– collective allowances	–	2,615	–	2,133
– bad debts recovered	<b>163</b>	23	<b>163</b>	23
	<b>9,944</b>	8,002	<b>9,944</b>	7,515
Net impairment reversals	<b>4,012</b>	3,386	<b>3,649</b>	2,937

**Notes on the Accounts** (continued)**10 Profit on ordinary activities before tax**

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Profit before tax is stated after charging:				
Auditors' remuneration	<b>50</b>	49	<b>36</b>	34
Directors' emoluments				
– fees	<b>41</b>	27	<b>41</b>	27
– other emoluments	<b>237</b>	221	<b>237</b>	221
	<b>278</b>	248	<b>278</b>	248

**11 Tax on profit on ordinary activities**

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
The charge for income tax, which is based on the taxable profit for the year at a rate of 35%, comprises:				
– current	<b>7,710</b>	6,386	<b>8,596</b>	5,572
– deferred	<b>3,197</b>	2,997	<b>2,092</b>	1,780
	<b>10,907</b>	9,383	<b>10,688</b>	7,352

The tax on profit on ordinary activities and the result of accounting profit multiplied by the applicable tax rate are reconciled as follows:

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Profit on ordinary activities before tax	<b>33,037</b>	26,164	<b>31,884</b>	20,117
Tax at the applicable rate of 35%	<b>11,563</b>	9,157	<b>11,160</b>	7,041
Tax effect of non-taxable income	<b>(752)</b>	(479)	<b>(477)</b>	(479)
Tax effect of profits taxed at different rates	<b>(1)</b>	(4)	<b>(176)</b>	(2)
Tax effect of non-deductible expenses	<b>198</b>	228	<b>116</b>	184
Tax effect of depreciation charges not deductible by way of capital allowances	<b>113</b>	97	<b>113</b>	97
Tax effect of taxable temporary differences not previously recognised	<b>(48)</b>	511	<b>(48)</b>	511
Tax effect of additional deductions	<b>(166)</b>	(127)	<b>–</b>	–
Tax on profit on ordinary activities	<b>10,907</b>	9,383	<b>10,688</b>	7,352

**12 Earnings per share**

The calculation of earnings per share of the group is based on the profit after tax for the year ended 31 December 2004, amounting to Lm22,130,000 (2003: Lm16,781,000), divided by the number of shares in issue.

The calculation of earnings per share for the bank is based on the profit after tax for the year ended 31 December 2004, amounting to Lm21,196,000 (2003: Lm12,765,000), divided by the number of shares in issue.



### 13 Balances with Central Bank of Malta, Treasury Bills and cash

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Balances with Central Bank of Malta	<b>53,145</b>	48,318	<b>53,145</b>	48,304
Malta Government Treasury Bills	<b>43,573</b>	72,984	<b>43,573</b>	72,954
Cash	<b>10,088</b>	12,272	<b>10,063</b>	12,254
	<b>106,806</b>	133,574	<b>106,781</b>	133,512

Balances with Central Bank of Malta include a reserve deposit, required in terms of Article 37 of the Central Bank of Malta Act, Cap. 204. The average reserve deposit requirement as at year end was Lm54,950,320 in respect of the group and bank (2003: Lm52,361,000 in respect of the group and Lm52,338,000 in respect of the bank).

### 14 Financial instruments held for trading

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
<b>Financial assets held for trading</b>				
Debt and other fixed income instruments	<b>1,081</b>	–	<b>1,081</b>	–
Equity and other non-fixed income instruments	<b>108</b>	141	<b>108</b>	141
Derivative financial instruments	<b>3,637</b>	2,303	<b>3,637</b>	2,303
	<b>4,826</b>	2,444	<b>4,826</b>	2,444
<b>Financial liabilities held for trading</b>				
Derivative financial instruments	<b>9,917</b>	8,611	<b>9,917</b>	8,611

#### a *Debt and other fixed income instruments*

Issued by public bodies				
– local government	<b>1,081</b>	–	<b>1,081</b>	–
Listing status				
– listed on the Malta Stock Exchange	<b>1,081</b>	–	<b>1,081</b>	–

#### b *Equity and other non-fixed income instruments*

The equity and other non-fixed income instruments held for trading are listed on the Malta Stock Exchange and are analysed as follows:

Issued by other issuers				
– local banks	<b>45</b>	80	<b>45</b>	80
– local others	<b>63</b>	61	<b>63</b>	61
	<b>108</b>	141	<b>108</b>	141

**Notes on the Accounts** (continued)**14 Financial instruments held for trading** (continued)**c Derivative financial instruments**

	<i>Notional amount with remaining life of:</i>				<b>2004</b> <i>Fair value</i> <i>assets</i>	<b>2004</b> <i>Fair value</i> <i>liabilities</i>
	<i>Less than</i>	<i>Between 3</i>	<i>More than</i>	<i>Total</i>		
	<i>3 months</i>	<i>months &amp;</i> <i>1 year</i>	<i>1 year</i>			
	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>
<b>Interest rate derivatives</b>						
Over the counter products						
– interest rate swaps	–	<b>7,433</b>	<b>2,156</b>	<b>9,589</b>	–	<b>210</b>
<b>Currency derivatives</b>						
Over the counter products						
– forward exchange contracts	<b>70,081</b>	<b>78,824</b>	<b>6,718</b>	<b>155,623</b>	<b>2,142</b>	<b>8,212</b>
<b>Equity derivatives</b>						
Over the counter products						
– equity index options purchased	–	<b>1,338</b>	<b>7,406</b>	<b>8,744</b>	<b>1,495</b>	–
– equity index options written	–	<b>(1,338)</b>	<b>(7,406)</b>	<b>(8,744)</b>	–	<b>1,495</b>
<b>Total derivative financial instruments</b>					<b>3,637</b>	<b>9,917</b>

	<i>Notional amount with remaining life of:</i>				<b>2003</b> <i>Fair value</i> <i>assets</i>	<b>2003</b> <i>Fair value</i> <i>liabilities</i>
	<i>Less than</i>	<i>Between 3</i>	<i>More than</i>	<i>Total</i>		
	<i>3 months</i>	<i>months &amp;</i> <i>1 year</i>	<i>1 year</i>			
	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>
<b>Interest rate derivatives</b>						
Over the counter products						
– interest rate swaps	–	–	<b>10,319</b>	<b>10,319</b>	–	<b>614</b>
<b>Currency derivatives</b>						
Over the counter products						
– forward exchange contracts	<b>35,007</b>	<b>59,221</b>	<b>12,854</b>	<b>107,082</b>	<b>1,583</b>	<b>7,277</b>
– forward exchange options purchased	<b>917</b>	–	–	<b>917</b>	<b>25</b>	–
– forward exchange options written	<b>(917)</b>	–	–	<b>(917)</b>	–	<b>25</b>
	<b>35,007</b>	<b>59,221</b>	<b>12,854</b>	<b>107,082</b>		
<b>Equity derivatives</b>						
Over the counter products						
– equity index options purchased	–	–	<b>7,536</b>	<b>7,536</b>	<b>695</b>	–
– equity index options written	–	–	<b>(7,536)</b>	<b>(7,536)</b>	–	<b>695</b>
<b>Total derivative financial instruments</b>					<b>2,303</b>	<b>8,611</b>

## 15 Investments

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
<b>Debt and other fixed income instruments</b>				
– available-for-sale	<b>121,129</b>	86,632	<b>113,916</b>	83,525
– held-to-maturity	<b>120,933</b>	135,396	<b>150,849</b>	165,280
<b>Equity and other non-fixed income instruments</b>				
– available-for-sale	<b>3,675</b>	13,031	<b>3,461</b>	7,386
	<b>245,737</b>	235,059	<b>268,226</b>	256,191

### a *Debt and other fixed income instruments available-for-sale*

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Issued by public bodies				
– local government	<b>97,188</b>	85,496	<b>93,107</b>	83,525
Issued by other issuers				
– foreign banks	<b>17,464</b>	–	<b>16,464</b>	–
– foreign others	<b>6,477</b>	1,136	<b>4,345</b>	–
	<b>121,129</b>	86,632	<b>113,916</b>	83,525
Listing status				
– listed on the Malta Stock Exchange	<b>98,188</b>	85,496	<b>93,107</b>	83,525
– listed elsewhere	<b>22,625</b>	1,136	<b>20,493</b>	–
– foreign unlisted	<b>316</b>	–	<b>316</b>	–
	<b>121,129</b>	86,632	<b>113,916</b>	83,525
At 1 January	<b>86,632</b>	89,003	<b>83,525</b>	85,809
Exchange adjustments	<b>(52)</b>	–	<b>(48)</b>	–
Transfers	<b>(345)</b>	1,614	–	–
Amortisation	<b>(259)</b>	(221)	<b>(259)</b>	(221)
Acquisitions	<b>35,319</b>	1,812	<b>30,761</b>	741
Disposals	<b>(92)</b>	(9,610)	–	(6,767)
Changes in fair value	<b>(74)</b>	4,034	<b>(63)</b>	3,963
At 31 December	<b>121,129</b>	86,632	<b>113,916</b>	83,525

Debt instruments with a nominal value of Lm13,500,000 (2003: Lm13,500,000) have been pledged against the provision of credit lines by the Central Bank of Malta. At 31 December 2004 no balances were outstanding against these credit lines.

**Notes on the Accounts** (continued)**15 Investments** (continued)**b Debt and other fixed income instruments held-to-maturity**

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Issued by public bodies				
– local government	<b>15,442</b>	23,773	<b>15,442</b>	23,773
– foreign government	<b>1,265</b>	1,357	<b>1,265</b>	1,357
Issued by other issuers				
– local banks	<b>400</b>	400	<b>30,316</b>	30,284
– foreign banks	<b>84,460</b>	90,152	<b>84,460</b>	90,152
– local others	<b>3,795</b>	3,791	<b>3,795</b>	3,791
– foreign others	<b>15,571</b>	15,923	<b>15,571</b>	15,923
	<b>120,933</b>	135,396	<b>150,849</b>	165,280
Amounts include:				
Issued by subsidiary companies				
– unsubordinated	<b>–</b>	–	<b>29,916</b>	29,884
Listing status				
– listed on the Malta Stock Exchange	<b>19,237</b>	27,564	<b>19,237</b>	27,564
– listed elsewhere	<b>98,785</b>	103,316	<b>98,785</b>	103,316
– local unlisted	<b>400</b>	400	<b>30,316</b>	30,284
– foreign unlisted	<b>2,511</b>	4,116	<b>2,511</b>	4,116
	<b>120,933</b>	135,396	<b>150,849</b>	165,280
At 1 January	<b>135,396</b>	162,302	<b>165,280</b>	186,925
Exchange adjustments	<b>(1,686)</b>	(4,797)	<b>(1,686)</b>	(4,797)
Amortisation	<b>(94)</b>	(296)	<b>(62)</b>	(228)
Acquisitions	<b>57,805</b>	50,295	<b>57,805</b>	50,295
Redemptions	<b>(70,488)</b>	(72,858)	<b>(70,488)</b>	(67,665)
Reversal of impairment allowance	<b>–</b>	750	<b>–</b>	750
At 31 December	<b>120,933</b>	135,396	<b>150,849</b>	165,280

**c Equity and other non-fixed income instruments available-for-sale**

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Issued by other issuers				
– local banks	<b>2,155</b>	1,176	<b>2,155</b>	1,176
– local others	<b>1,445</b>	11,796	<b>1,296</b>	6,201
– foreign others	<b>75</b>	59	<b>10</b>	9
	<b>3,675</b>	13,031	<b>3,461</b>	7,386
Listing status				
– listed on the Malta Stock Exchange	<b>3,034</b>	12,283	<b>2,885</b>	6,732
– listed elsewhere	<b>65</b>	3	<b>–</b>	–
– local unlisted	<b>566</b>	736	<b>566</b>	645
– foreign unlisted	<b>10</b>	9	<b>10</b>	9
	<b>3,675</b>	13,031	<b>3,461</b>	7,386
At 1 January	<b>13,031</b>	12,607	<b>7,386</b>	7,275
Transfers	<b>29</b>	(8)	<b>–</b>	–
Acquisitions	<b>13</b>	10	<b>3</b>	10
Disposals	<b>(10,714)</b>	(376)	<b>(5,216)</b>	(329)
Changes in fair value	<b>1,316</b>	798	<b>1,288</b>	430
At 31 December	<b>3,675</b>	13,031	<b>3,461</b>	7,386

## 16 Loans and advances to banks

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Repayable on call and at short notice	<b>52,655</b>	7,856	<b>93,737</b>	65,102
Term loans and advances	<b>78,626</b>	122,844	<b>78,626</b>	122,843
	<b>131,281</b>	130,700	<b>172,363</b>	187,945
Amounts include:				
– due from Group companies	<b>70,950</b>	76,175	<b>70,950</b>	76,175
– due from subsidiary companies				
– unsubordinated	<b>–</b>	–	<b>41,039</b>	57,275

## 17 Loans and advances to customers

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Repayable on call and at short notice	<b>250,484</b>	260,866	<b>250,984</b>	260,866
Term loans and advances	<b>748,852</b>	687,903	<b>656,750</b>	577,896
Finance lease receivables	<b>–</b>	124	<b>–</b>	124
Gross loans and advances to customers	<b>999,336</b>	948,893	<b>907,734</b>	838,886
Allowances for uncollectability	<b>(19,890)</b>	(26,367)	<b>(19,716)</b>	(25,785)
Net loans and advances to customers	<b>979,446</b>	922,526	<b>888,018</b>	813,101
Amounts include:				
– due from subsidiary companies				
– unsubordinated	<b>–</b>	–	<b>630</b>	264
<b>Allowances for uncollectability</b>				
– specific allowances	<b>15,250</b>	22,140	<b>15,163</b>	22,059
– collective allowances	<b>4,640</b>	4,227	<b>4,553</b>	3,726
	<b>19,890</b>	26,367	<b>19,716</b>	25,785
The following industry concentrations are considered significant:				
– agriculture	<b>2,719</b>	2,231	<b>2,699</b>	2,211
– fishing	<b>434</b>	656	<b>434</b>	656
– mining and quarrying	<b>3,063</b>	3,749	<b>3,063</b>	3,749
– manufacturing	<b>98,391</b>	101,385	<b>98,351</b>	101,334
– electricity, gas and water supply	<b>60,154</b>	56,663	<b>60,154</b>	56,663
– construction	<b>128,809</b>	113,339	<b>128,804</b>	113,112
– wholesale and retail trade; repairs	<b>159,517</b>	156,990	<b>159,359</b>	156,766
– hotels and restaurants; excluding related construction activities	<b>88,974</b>	90,994	<b>88,844</b>	90,760
– transport, storage and communication	<b>46,655</b>	58,945	<b>46,585</b>	58,855
– financial intermediation	<b>5,279</b>	6,384	<b>5,909</b>	6,648
– real estate, renting and business activities	<b>23,110</b>	24,716	<b>23,110</b>	24,716
– education	<b>1,307</b>	1,135	<b>1,307</b>	1,135
– health and social work	<b>11,238</b>	12,007	<b>11,238</b>	12,007
– community, recreational and personal service activities	<b>5,917</b>	6,086	<b>5,917</b>	6,086
– household and individuals	<b>363,769</b>	313,613	<b>271,960</b>	204,188
	<b>999,336</b>	948,893	<b>907,734</b>	838,886

**Notes on the Accounts** (continued)**17 Loans and advances to customers** (continued)**Further disclosures as required by the Publication of Audited Financial Statements of Credit Institutions authorised under the Banking Act, 1994 Directive:**

The aggregate amount of impaired loans and advances amounted to Lm82,322,000 (2003: Lm107,770,000) in respect of the group and Lm77,507,000 (2003: Lm100,146,000) in respect of the bank. Total interest that would have accrued on the impaired loans in the current and preceding financial years would have amounted to Lm14,020,000 (2003: Lm17,215,000) in respect of the group and Lm13,581,000 (2003: Lm16,666,000) in respect of the bank.

**18 Shares in subsidiary companies**

<i>Bank</i>					
<i>Name of company</i>	<i>Incorporated in</i>	<i>Nature of business</i>	<i>Current equity</i>	<b>2004</b>	2003
			<i>interest</i>	<b>Lm000</b>	Lm000
			<b>%</b>		
HSBC Home Loans (Malta) Limited	Malta	Finance for housing	<b>99.99</b>	<b>21,202</b>	22,712
HSBC Life Assurance (Malta) Limited	Malta	Life assurance	<b>99.99</b>	<b>12,098</b>	10,708
HSBC Fund Management (Malta) Limited	Malta	Management of collective investment schemes	<b>99.99</b>	<b>8,602</b>	8,028
HSBC Stockbrokers (Malta) Limited	Malta	Stockbroking services	<b>99.99</b>	<b>121</b>	154
				<b>42,023</b>	<b>41,602</b>

HSBC Fund Management (Malta) Limited holds 99.99% of the equity interest in HSBC Investment Services (Malta) Limited.

None of the subsidiary companies are listed.

**19 Intangible fixed assets**

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Purchased goodwill	–	339	–	189
Software	<b>1,022</b>	1,423	<b>964</b>	1,339
	<b>1,022</b>	1,762	<b>964</b>	1,528

**a Purchased goodwill**

	<i>Group</i>	<i>Bank</i>
	<b>Lm000</b>	<b>Lm000</b>
<b>Cost</b>		
At 1 January 2004	<b>1,943</b>	<b>1,026</b>
<b>At 31 December 2004</b>	<b>1,943</b>	<b>1,026</b>
<b>Amortisation</b>		
At 1 January 2004	<b>1,604</b>	<b>837</b>
Amortisation recognised during the year	<b>339</b>	<b>189</b>
<b>At 31 December 2004</b>	<b>1,943</b>	<b>1,026</b>
<b>Net book amount</b>		
<b>At 31 December 2004</b>	–	–
At 31 December 2003	339	189

## 19 Intangible fixed assets (continued)

### b Software

	<u>Group</u>	<u>Bank</u>
	<b>Lm000</b>	<b>Lm000</b>
<b>Cost</b>		
At 1 January 2004	4,695	4,370
Additions	86	81
Disposals	(629)	(629)
<b>At 31 December 2004</b>	<b>4,152</b>	<b>3,822</b>
<b>Depreciation</b>		
At 1 January 2004	3,272	3,031
Charge for the year	458	427
Disposals	(600)	(600)
<b>At 31 December 2004</b>	<b>3,130</b>	<b>2,858</b>
<b>Net book amount</b>		
<b>At 31 December 2004</b>	<b>1,022</b>	<b>964</b>
At 31 December 2003	1,423	1,339

## 20 Tangible fixed assets

	<u>Land and buildings</u>	<u>Computer equipment</u>	<u>Others</u>	<u>Total</u>
	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>
<i>Group</i>				
<b>Cost/valuation</b>				
At 1 January 2004	17,782	7,267	16,620	41,669
Reclassifications	80	101	(181)	–
Additions	68	457	986	1,511
Revaluation	1,115	–	–	1,115
Disposals	–	(652)	(306)	(958)
<b>At 31 December 2004</b>	<b>19,045</b>	<b>7,173</b>	<b>17,119</b>	<b>43,337</b>
<b>Depreciation</b>				
At 1 January 2004	620	4,934	5,604	11,158
Reclassifications	1	–	(1)	–
Charge for the year	228	735	1,348	2,311
Revaluation	(192)	–	–	(192)
Disposals	–	(448)	(139)	(587)
<b>At 31 December 2004</b>	<b>657</b>	<b>5,221</b>	<b>6,812</b>	<b>12,690</b>
<b>Net book amount</b>				
<b>At 31 December 2004</b>	<b>18,388</b>	<b>1,952</b>	<b>10,307</b>	<b>30,647</b>
At 31 December 2003	17,162	2,333	11,016	30,511
			<b>2004</b>	2003
			<b>Lm000</b>	Lm000
<b>Net book amount of land and buildings occupied for own activities</b>			<b>18,388</b>	<b>17,162</b>
<b>Future capital expenditure</b>				
– contracted but not provided in the financial statements			218	428
– authorised by the directors but not yet contracted			1,350	477
			<b>1,568</b>	<b>905</b>

**Notes on the Accounts** (continued)**20 Tangible fixed assets** (continued)

	<i>Land and buildings</i>	<i>Computer equipment</i>	<i>Others</i>	<i>Total</i>
	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>
<i>Bank</i>				
<b>Cost/revaluation</b>				
At 1 January 2004	17,776	6,924	15,880	40,580
Reclassifications	80	101	(181)	–
Additions	68	432	979	1,479
Revaluation	1,115	–	–	1,115
Disposals	–	(649)	(286)	(935)
<b>At 31 December 2004</b>	<b>19,039</b>	<b>6,808</b>	<b>16,392</b>	<b>42,239</b>
<b>Depreciation</b>				
At 1 January 2004	527	4,650	4,945	10,122
Reclassifications	1	–	(1)	–
Charge for the year	228	700	1,325	2,253
Revaluation	(192)	–	–	(192)
Disposals	–	(445)	(119)	(564)
<b>At 31 December 2004</b>	<b>564</b>	<b>4,905</b>	<b>6,150</b>	<b>11,619</b>
<b>Net book amount</b>				
<b>At 31 December 2004</b>	<b>18,475</b>	<b>1,903</b>	<b>10,242</b>	<b>30,620</b>
At 31 December 2003	17,249	2,274	10,935	30,458
			<b>2004</b>	2003
			<b>Lm000</b>	Lm000
<b>Net book amount of land and buildings occupied for own activities</b>			<b>18,475</b>	17,249
<b>Future capital expenditure</b>				
– contracted but not provided in the financial statements			188	428
– authorised by the directors but not yet contracted			1,121	153
			<b>1,309</b>	581

The group's freehold and long-term leasehold properties were revalued by an independent professionally qualified valuer on an existing use basis during September 2004.

The carrying amount of land and buildings that would have been included in the financial statements had these assets been carried at cost less depreciation is Lm9,442,000 (2003: Lm9,462,000) for the Group and the Bank.



## 21 Other assets

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Long-term assurance portfolios				
attributable to policyholders	<b>65,996</b>	50,192	–	–
Value of in-force life assurance business	<b>7,904</b>	7,262	–	–
Taxation recoverable	<b>1,372</b>	–	<b>1,310</b>	–
Other	<b>1,640</b>	1,648	<b>921</b>	1,246
	<b>76,912</b>	59,102	<b>2,231</b>	1,246

Long-term assurance portfolios attributable to policyholders are analysed as follows:

<i>Group</i>	<b>2004</b>	2003
	<b>Lm000</b>	Lm000
Debt and other fixed income instruments	<b>34,997</b>	24,746
Equity and other non-fixed income instruments	<b>30,331</b>	22,075
Loans and advances to banks	<b>322</b>	3,025
Investment properties	<b>346</b>	346
	<b>65,996</b>	50,192

The fair value gains and losses on financial assets relating to long-term assurance business are recognised in the consolidated profit and loss account and not through equity. Aggregate unrealised gains on shareholders' portfolios recognised through the consolidated profit and loss account amounted to Lm22,000 (2003: Lm37,000).

## 22 Prepayments and accrued income

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Accrued income	<b>16,351</b>	15,784	<b>15,435</b>	15,163
Prepayments	<b>283</b>	278	<b>281</b>	269
	<b>16,634</b>	16,062	<b>15,716</b>	15,432

## 23 Amounts owed to banks

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Term deposits	<b>42,462</b>	23,525	<b>42,462</b>	23,525
Repayable on demand	<b>5,874</b>	8,842	<b>5,874</b>	8,843
	<b>48,336</b>	32,367	<b>48,336</b>	32,368
Amounts include:				
– due to Group companies	<b>26,547</b>	13,998	<b>26,547</b>	13,998
– due to subsidiary companies	–	–	–	1

**Notes on the Accounts** (continued)**24 Amounts owed to customers**

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Term deposits	<b>725,546</b>	722,758	<b>732,921</b>	725,878
Repayable on demand	<b>563,394</b>	544,620	<b>563,766</b>	545,180
	<b>1,288,940</b>	1,267,378	<b>1,296,687</b>	1,271,058
Amounts include:				
– due to subsidiary companies	–	–	<b>7,896</b>	4,230

**25 Debt securities in issue**

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Bonds and notes issued	<b>12</b>	12	–	–

Debt securities in issue are guaranteed by the Government of Malta and interest payable thereon is tax free by virtue of an exemption order in terms of Part IV Article II (2) of the Income Tax Act, Cap. 123. The securities bear interest at the rate of 4.5 per cent per annum.

**26 Deferred tax liability/(asset)**

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35% (2003: 35%). The deferred tax is analysed as follows:

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Tax effect of temporary differences relating to:				
– excess of capital allowances over depreciation	<b>594</b>	377	<b>601</b>	386
– allowances for uncollectibility	<b>(6,982)</b>	(9,254)	<b>(6,922)</b>	(9,050)
– property revaluation	<b>3,744</b>	3,287	<b>3,744</b>	3,287
– fair value movements on investments	<b>2,988</b>	4,011	<b>3,004</b>	2,726
– unrelieved tax losses	<b>(1,725)</b>	(1,824)	<b>(37)</b>	(44)
– value of in-force life assurance business	<b>2,766</b>	2,542	–	–
– fair value movement on policy holders investments	<b>668</b>	23	–	–
– other	<b>265</b>	(769)	<b>235</b>	500
	<b>2,318</b>	(1,607)	<b>625</b>	(2,195)

The aggregate deferred tax relating to items that are charged to equity amounts to Lm6,754,000 (2003: Lm6,026,000) in respect of the group and the bank.

**27 Other liabilities**

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Long-term assurance liabilities				
– attributable to policyholders	<b>65,996</b>	50,192	–	–
Bills payable	<b>8,830</b>	7,390	<b>8,830</b>	7,390
Cash collateral for commitments	<b>53</b>	51	<b>53</b>	51
Obligations under finance leases	<b>233</b>	–	<b>233</b>	–
Other	<b>3,434</b>	4,447	<b>2,079</b>	3,591
	<b>78,546</b>	62,080	<b>11,195</b>	11,032

## 28 Accruals and deferred income

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Accrued interest	<b>8,337</b>	10,349	<b>8,458</b>	10,351
Other	<b>6,764</b>	5,327	<b>6,360</b>	5,068
	<b>15,101</b>	15,676	<b>14,818</b>	15,419

## 29 Provisions for liabilities and other charges

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Provision for tax	–	1,371	–	1,419
Other	<b>26</b>	327	<b>26</b>	327
	<b>26</b>	1,698	<b>26</b>	1,746

## 30 Subordinated liabilities

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
7.25% subordinated unsecured loan stock	<b>20,000</b>	20,000	<b>20,000</b>	20,000

## 31 Share capital

	<b>2004</b>		2003	
	<i>Shares of 25c each</i>		<i>Shares of 25c each</i>	
	<b>000s</b>	<b>Lm000</b>	000s	Lm000
<b>Authorised</b>				
Ordinary shares	<b>160,000</b>	<b>40,000</b>	160,000	40,000
<b>Issued and paid up</b>				
Ordinary shares	<b>36,480</b>	<b>9,120</b>	36,480	9,120

## 32 Reserves

### a *Revaluation reserves*

The revaluation reserves comprise the surplus arising on the revaluation of the group's freehold and long leasehold properties and the cumulative net change in fair values of available-for-sale assets held by the group. The revaluation reserves are not available for distribution.

### b *Other reserve*

This reserve represents the gain registered by the bank on the translation of its net foreign currency holding following the devaluation of the Maltese lira on 25 November 1992, net of related tax effects. This reserve is not available for distribution.

**Notes on the Accounts** (continued)**33 Contingent liabilities**

	<i>Group</i>		<i>Bank</i>	
	<i>Contract amount</i>		<i>Contract amount</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Guarantees and assets pledged as collateral security				
– guarantees	<b>36,049</b>	33,997	<b>36,459</b>	34,417
– standby letters of credit	<b>8,078</b>	4,821	<b>8,078</b>	4,821
	<b>44,127</b>	38,818	<b>44,537</b>	39,238

**34 Commitments**

	<i>Group</i>		<i>Bank</i>	
	<i>Contract amount</i>		<i>Contract amount</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Documentary credits	<b>4,481</b>	6,091	<b>4,481</b>	6,091
Undrawn formal standby facilities, credit facilities and other commitments to lend	<b>326,102</b>	291,240	<b>342,276</b>	309,006
Uncalled share capital in other companies	<b>1</b>	300	<b>1</b>	300
	<b>330,584</b>	297,631	<b>346,758</b>	315,397

**35 Lease commitments****a Operating leases**

Total future minimum lease payments under operating leases not provided for:

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Less than one year	<b>469</b>	513	<b>469</b>	513
Between one year and five years	<b>553</b>	463	<b>553</b>	463
More than five years	<b>72</b>	78	<b>72</b>	78
	<b>1,094</b>	1,054	<b>1,094</b>	1,054

**b Finance leases**

Finance lease payments, both principal and finance charge, are payable as follows:

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
Less than one year	<b>45</b>	–	<b>45</b>	–
Between one year and five years	<b>188</b>	–	<b>188</b>	–
Present value of minimum lease payments	<b>233</b>	–	<b>233</b>	–
Finance charges	<b>35</b>	–	<b>35</b>	–
Total minimum lease payments	<b>268</b>	–	<b>268</b>	–

### 36 Dividends

	<i>Bank</i>			
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
	% per share	% per share	Lm000	Lm000
<b>Gross of income tax</b>				
– interim	78	43	7,077	3,940
– special interim	142	–	12,914	–
– proposed final	109	98	9,959	8,974
	<u>329</u>	<u>141</u>	<u>29,950</u>	<u>12,914</u>
	<u>Cents per share</u>	<u>Cents per share</u>	<u>Lm000</u>	<u>Lm000</u>
<b>Net of income tax</b>				
– interim	12.61	7.02	4,600	2,561
– special interim	23.01	–	8,394	–
– proposed final	17.75	16.00	6,473	5,833
	<u>53.37</u>	<u>23.02</u>	<u>19,467</u>	<u>8,394</u>

### 37 Cash and cash equivalents

	<i>Group</i>		<i>Bank</i>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
	Lm000	Lm000	Lm000	Lm000
<b>Balances of cash and cash equivalents as shown in the balance sheet are analysed below:</b>				
Cash	10,088	12,272	10,063	12,254
Malta Government Treasury Bills	–	878	–	848
Loans and advances to banks	111,644	118,142	152,726	175,388
Amounts owed to banks	(24,681)	(23,273)	(24,681)	(23,273)
	<u>97,051</u>	<u>108,019</u>	<u>138,108</u>	<u>165,217</u>
Adjustment to reflect balances with contractual maturity of more than three months	39,555	75,570	39,555	75,568
<b>Per balance sheet</b>	<u>136,606</u>	<u>183,589</u>	<u>177,663</u>	<u>240,785</u>
<b>Analysed as follows:</b>				
Cash	10,088	12,272	10,063	12,254
Malta Government Treasury Bills	43,573	72,984	43,573	72,954
Loans and advances to banks	131,281	130,700	172,363	187,945
Amounts owed to banks	(48,336)	(32,367)	(48,336)	(32,368)
	<u>136,606</u>	<u>183,589</u>	<u>177,663</u>	<u>240,785</u>

**Notes on the Accounts** (continued)**38 Segmental information****a Class of business**

	<i>Personal Financial Services</i>		<i>Commercial Banking</i>		<i>Corporate, Investment Banking and Markets</i>		<i>Total</i>	
	<b>2004</b>	2003	<b>2004</b>	2003	<b>2004</b>	2003	<b>2004</b>	2003
	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000	<b>Lm000</b>	Lm000
<i>Group</i>								
<b>Profit before tax</b>								
Segment operating income	<b>28,927</b>	25,549	<b>22,136</b>	20,363	<b>8,358</b>	7,456	<b>59,421</b>	53,368
Segment impairment allowances	<b>107</b>	993	<b>3,905</b>	2,393	–	–	<b>4,012</b>	3,386
Common costs							<b>(30,396)</b>	(30,590)
<b>Profit on ordinary activities before tax</b>							<b>33,037</b>	26,164
<b>Assets</b>								
Segment total assets	<b>476,682</b>	413,546	<b>651,187</b>	644,033	<b>469,900</b>	481,405	<b>1,597,769</b>	1,538,984
Average total assets	<b>445,114</b>	383,779	<b>647,610</b>	649,653	<b>475,653</b>	521,227	<b>1,568,377</b>	1,554,659
Net assets	<b>39,534</b>	38,531	<b>82,104</b>	80,024	<b>12,935</b>	12,607	<b>134,573</b>	131,162

**b Geographical segments**

The group's activities are carried out within Malta. There are no identifiable geographical segments or other material concentrations.

**39 Related parties**

During the course of banking operations, the group conducted business transactions with entities owned by the ultimate parent and its subsidiaries on an arm's length basis. These include sales of HSBC Group products and the provision of management resources and IT development costs in relation to the integration of the group and the bank into the HSBC Group.

Executive Directors participate in the HSBC Group share option plans (see note 8).

**40 Financial instruments and risk management**

International Accounting Standard 32 Financial Instruments: Disclosure and Presentation requires disclosure of information that will assist users to assess the extent of risks relating to both on and off balance sheet financial instruments.

**a Use of financial instruments**

The nature of the group's core banking operations implies that financial instruments are extensively used in the course of its routine business. The group's financial instruments consist of primary instruments and include cash balances with banks, loans and advances to customers, debt securities, subordinated debt securities in issue and amounts due to banks and customers.

The group is potentially exposed to a mixed blend of risks and hence operates a risk management strategy with the objective of controlling and minimising their impact on group financial performance and position.

The principal categories of risk are credit risk, market risk and liquidity risk.

The group's accounting policies are directed towards the establishment of fair values for its assets and liabilities in light of these risks.

#### 40 Financial instruments and risk management (continued)

##### b *Credit risk management*

Credit risk is the risk that a customer or counterparty of the group will be unable or unwilling to meet a commitment that it has entered into with a member of the group. It arises from the lending, trade finance, treasury and any other activities undertaken by group companies. The group has in place HSBC Group standards, policies and procedures for the control and monitoring of all such risks. Management is responsible for the quality of its credit portfolios and has established credit processes involving delegated approval authorities and credit procedures, the objective of which is to build and maintain risk assets of high quality.

Authority levels are maintained throughout the branch network, lendings are graded and a system of reporting exists to ensure controlled reviews. Statutorily-imposed limits in line with Banking Directives issued by the Malta Financial Services Authority are also maintained.

Sectorial concentrations of the group's loans and advances portfolio are set out in note 17. The group's largest economic sector exposures are within the household and individuals sector which accounts for 36 per cent of total loans and advances. The wholesale and retail trade sector accounts for 16 per cent, construction 13 per cent, manufacturing 10 per cent, hotels and restaurants 9 per cent, electricity, gas and water supply 6 per cent and transport storage and communication 5 per cent.

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##### c *Market and liquidity risk management*

Market risk is the risk that interest rates, foreign exchange rates or equity prices will move and result in profits or losses to the group. Market risk arises on financial instruments that are valued at current market prices (mark-to-market basis) and those valued at cost plus any accrued interest (accruals basis). The group manages market risk through risk limits approved by the HSBC Group Executive Committee. Limits are set by product and risk type with market liquidity being a principal factor in determining the level of limits set.

The group's interest rate exposures comprise those originating in its treasury activities and those originating in other banking activities. Interest rate risk arises in both dealing portfolios and accrual books. The primary source of interest rate risk originating in other banking activities arises from the employment of non-interest bearing liabilities such as shareholders' funds and current accounts, as well as fixed rate loans and liabilities other than those generated by treasury business. The group's asset and liability management committee (ALCO) assesses the interest rate risks which arise in the business. The primary objective of such interest rate risk management is to limit potential adverse effects of interest rate movements on net interest income.

The effect of changes in the local interest rate structure are controlled by monitoring interest rate gaps on financial assets and financial liabilities. The following table discloses that 76 per cent of the group's assets and 56 per cent of its liabilities and shareholders' funds are contractually reprisable within a three-month timeframe from the current financial period end.

**Notes on the Accounts** (continued)**40 Financial instruments and risk management** (continued)**c Market and liquidity risk management** (continued)

<i>Group</i>	<u>Lm000</u>	<i>Effective interest rate</i> %	<i>Less than three months</i> Lm000	<i>Between</i>	<i>Between</i>	<i>More</i>	<i>Others</i> Lm000
				<i>three months and one year</i> Lm000	<i>one year and five years</i> Lm000	<i>than five years</i> Lm000	
<b>At 31 December 2004</b>							
<b>Assets</b>							
Balances with Central Bank of Malta, Treasury Bills and cash	<b>106,806</b>	<b>2.67</b>	<b>32,412</b>	<b>11,161</b>	–	–	<b>63,233</b>
Cheques in course of collection	<b>4,458</b>	–	–	–	–	–	<b>4,458</b>
Financial assets held for trading							
– debt and other fixed income instruments	<b>1,081</b>	<b>5.46</b>	–	–	<b>1,081</b>	–	–
– equity and other non-fixed income instruments	<b>108</b>	–	–	–	–	–	<b>108</b>
– derivative financial instruments	<b>3,637</b>	–	–	–	–	–	<b>3,637</b>
Investments							
– debt and other fixed income financial instruments							
– available-for-sale	<b>121,129</b>	<b>5.49</b>	<b>17,594</b>	<b>2,570</b>	<b>63,156</b>	<b>37,809</b>	–
– held-to-maturity	<b>120,933</b>	<b>3.61</b>	<b>81,811</b>	<b>25,154</b>	<b>10,172</b>	<b>3,796</b>	–
– equity and other non-fixed income instruments							
– available-for-sale	<b>3,675</b>	–	–	–	–	–	<b>3,675</b>
Loans and advances to banks	<b>131,281</b>	<b>2.57</b>	<b>112,394</b>	<b>3,977</b>	<b>14,910</b>	–	–
Loans and advances to customers	<b>979,446</b>	<b>5.11</b>	<b>966,966</b>	<b>4,899</b>	<b>1,739</b>	–	<b>5,842</b>
Long-term assurance portfolios attributable to policyholders	<b>65,996</b>	<b>3.28</b>	–	<b>86</b>	<b>4,651</b>	<b>30,259</b>	<b>31,000</b>
Other assets	<b>59,219</b>	–	–	–	–	–	<b>59,219</b>
<b>Total assets</b>	<b><u>1,597,769</u></b>		<b><u>1,211,177</u></b>	<b><u>47,847</u></b>	<b><u>95,709</u></b>	<b><u>71,864</u></b>	<b><u>171,172</u></b>



#### 40 Financial instruments and risk management (continued)

##### c Market and liquidity risk management (continued)

		Effective interest rate	Less than three months	Between three months and one year	Between one year and five years	More than five years	Others
	Lm000	%	Lm000	Lm000	Lm000	Lm000	Lm000
<b>Liabilities</b>							
Financial liabilities							
held for trading	9,917	–	(24)	133	101	–	9,707
Amounts owed to banks	48,336	1.84	24,753	23,388	–	–	195
Amounts owed to customers	1,288,940	2.00	877,157	313,613	96,874	–	1,296
Debt securities in issue	12	4.50	–	–	12	–	–
Subordinated liabilities	20,000	7.25	–	20,000	–	–	–
Other liabilities	95,991	–	–	–	–	–	95,991
	<u>1,463,196</u>		<u>901,886</u>	<u>357,134</u>	<u>96,987</u>	<u>–</u>	<u>107,189</u>
<b>Shareholders' funds</b>							
Called up share capital	9,120	–	–	–	–	–	9,120
Revaluation reserves	11,086	–	–	–	–	–	11,086
Other reserve	4,242	–	–	–	–	–	4,242
Profit and loss account	103,652	–	–	–	–	–	103,652
Dividend reserve	6,473	–	–	–	–	–	6,473
	<u>134,573</u>		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>134,573</u>
<b>Total liabilities and shareholders' funds</b>	<u>1,597,769</u>		<u>901,886</u>	<u>357,134</u>	<u>96,987</u>	<u>–</u>	<u>241,762</u>
<b>Gap</b>			<u>309,291</u>	<u>(309,287)</u>	<u>(1,278)</u>	<u>71,864</u>	<u>(70,590)</u>
<b>Cumulative gap</b>			<u>309,291</u>	<u>4</u>	<u>(1,274)</u>	<u>70,590</u>	<u>–</u>

**Notes on the Accounts** (continued)**40 Financial instruments and risk management** (continued)**c Market and liquidity risk management** (continued)

<i>Group</i>	<u>Lm000</u>	<i>Effective interest rate</i> <u>%</u>	<i>Less than three months</i> <u>Lm000</u>	<i>Between</i>	<i>Between</i>	<i>More</i>	<i>Others</i> <u>Lm000</u>
				<i>three months and one year</i> <u>Lm000</u>	<i>one year and five years</i> <u>Lm000</u>	<i>than five years</i> <u>Lm000</u>	
At 31 December 2003							
<b>Assets</b>							
Balances with Central Bank of Malta, Treasury Bills and cash	133,574	2.85	42,405	30,579	–	–	60,590
Cheques in course of collection	5,637	–	–	–	–	–	5,637
Financial assets held for trading							
– equity and other non-fixed income instruments	141	–	–	–	–	–	141
– derivative financial instruments	2,303	–	–	–	–	–	2,303
Investments							
– debt and other fixed income financial instruments							
– available-for-sale	86,632	6.38	91	–	33,021	53,520	–
– held-to-maturity	135,396	4.33	49,291	46,315	35,174	3,791	825
– equity and other non-fixed income instruments							
– available-for-sale	13,031	–	–	–	–	–	13,031
Loans and advances to banks	130,700	2.75	122,156	3,656	4,888	–	–
Loans and advances to customers	922,526	5.46	901,930	12,032	3,886	–	4,678
Long-term assurance portfolios attributable to policyholders	50,192	3.34	–	–	3,523	21,223	25,446
Other assets	58,852	–	–	–	–	–	58,852
<b>Total assets</b>	<u>1,538,984</u>		<u>1,115,873</u>	<u>92,582</u>	<u>80,492</u>	<u>78,534</u>	<u>171,503</u>

#### 40 Financial instruments and risk management (continued)

##### c Market and liquidity risk management (continued)

		Effective interest rate	Less than three months	Between three months and one year	Between one year and five years	More than five years	Others
	Lm000	%	Lm000	Lm000	Lm000	Lm000	Lm000
<b>Liabilities</b>							
Financial liabilities							
held for trading	8,611	–	115	387	112	–	7,997
Amounts owed to banks	32,367	2.22	31,168	1,004	–	–	195
Amounts owed to customers	1,267,378	2.48	847,030	341,894	76,644	–	1,810
Debt securities in issue	12	4.50	–	–	12	–	–
Subordinated liabilities	20,000	7.25	–	–	20,000	–	–
Other liabilities	79,454	–	–	–	–	–	79,454
	<u>1,407,822</u>		<u>878,313</u>	<u>343,285</u>	<u>96,768</u>	<u>–</u>	<u>89,456</u>
<b>Shareholders' funds</b>							
Called up share capital	9,120	–	–	–	–	–	9,120
Revaluation reserves	10,978	–	–	–	–	–	10,978
Other reserve	4,242	–	–	–	–	–	4,242
Profit and loss account	100,989	–	–	–	–	–	100,989
Dividend reserve	5,833	–	–	–	–	–	5,833
	<u>131,162</u>		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>131,162</u>
<b>Total liabilities and shareholders' funds</b>	<u>1,538,984</u>		<u>878,313</u>	<u>343,285</u>	<u>96,768</u>	<u>–</u>	<u>220,618</u>
<b>Gap</b>			<u>237,560</u>	<u>(250,703)</u>	<u>(16,276)</u>	<u>78,534</u>	<u>(49,115)</u>
<b>Cumulative gap</b>			<u>237,560</u>	<u>(13,143)</u>	<u>(29,419)</u>	<u>49,115</u>	<u>–</u>

The HSBC Group requires operating entities to manage the liquidity structure of their assets, liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are met when due.

Liquidity is managed on a daily basis by the group's treasury operations.

Compliance with liquidity requirements is monitored by the group's ALCO. This process includes:

- maintenance of group's liquidity ratios;
- monitoring of depositor concentration both in terms of the overall funding mix and to avoid undue reliance on large individual depositors;
- maintenance of liquidity contingency plans;
- ensuring compliance with local regulatory requirements; and
- projecting cash flows by major currency and a consideration of the level of liquid assets in relation thereto.

**Notes on the Accounts** (continued)**40 Financial instruments and risk management** (continued)**c Market and liquidity risk management** (continued)

The following tables provide an analysis of the financial assets and liabilities of the group and the bank into relevant maturity groupings based on the remaining contractual periods to repayment. The fair value adjustment has been presented to facilitate reconciliation to the balance sheet.

	<i>Fair value adjustments</i>	<i>Less than three months</i>	<i>Between three months and one year</i>	<i>Between one and five years</i>	<i>More than five years</i>	<i>Total</i>
	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>
<i>Group</i>						
<b>At 31 December 2004</b>						
<b>Financial assets</b>						
Balances with Central Bank of Malta and cash	–	<b>63,233</b>	–	–	–	<b>63,233</b>
Malta Government Treasury Bills	<b>(9)</b>	<b>32,417</b>	<b>11,165</b>	–	–	<b>43,573</b>
Investments						
– debt and other fixed income financial instruments						
– available-for-sale	<b>7,314</b>	–	<b>3,860</b>	<b>75,268</b>	<b>34,687</b>	<b>121,129</b>
– held-to-maturity	–	<b>8,894</b>	<b>31,844</b>	<b>76,400</b>	<b>3,795</b>	<b>120,933</b>
Loans and advances to banks	–	<b>112,394</b>	<b>3,977</b>	<b>14,910</b>	–	<b>131,281</b>
Loans and advances to customers	–	<b>295,453</b>	<b>56,484</b>	<b>311,838</b>	<b>315,671</b>	<b>979,446</b>
<b>Financial liabilities</b>						
Amounts owed to banks	–	<b>24,753</b>	<b>23,388</b>	–	<b>195</b>	<b>48,336</b>
Amounts owed to customers	–	<b>878,454</b>	<b>313,612</b>	<b>96,874</b>	–	<b>1,288,940</b>
Debt securities in issue	–	–	–	<b>12</b>	–	<b>12</b>
Subordinated liabilities	–	–	<b>20,000</b>	–	–	<b>20,000</b>
<b>At 31 December 2003</b>						
<b>Financial assets</b>						
Balances with Central Bank of Malta and cash	–	60,590	–	–	–	60,590
Malta Government Treasury Bills	–	42,405	30,579	–	–	72,984
Investments						
– debt and other fixed income financial instruments						
– available-for-sale	7,388	91	–	30,319	48,834	86,632
– held-to-maturity	–	21,887	46,993	62,725	3,791	135,396
Loans and advances to banks	–	122,156	3,656	4,888	–	130,700
Loans and advances to customers	–	311,101	49,586	290,721	271,118	922,526
<b>Financial liabilities</b>						
Amounts owed to banks	–	23,799	8,373	–	195	32,367
Amounts owed to customers	–	844,553	342,259	76,167	4,399	1,267,378
Debt securities in issue	–	–	–	12	–	12
Subordinated liabilities	–	–	–	20,000	–	20,000

#### 40 Financial instruments and risk management (continued)

##### c Market and liquidity risk management (continued)

	<i>Fair value adjustments</i>	<i>Less than three months</i>	<i>Between three months and one year</i>	<i>Between one and five years</i>	<i>More than five years</i>	<i>Total</i>
	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>
<i>Bank</i>						
<b>At 31 December 2004</b>						
<b>Financial assets</b>						
Balances with Central Bank of Malta and cash	–	<b>63,208</b>	–	–	–	<b>63,208</b>
Malta Government Treasury Bills	(9)	<b>32,417</b>	<b>11,165</b>	–	–	<b>43,573</b>
Financial assets held for trading						
– debt and other fixed income financial instruments	–	–	–	<b>1,081</b>	–	<b>1,081</b>
Investments						
– debt and other fixed income financial instruments						
– available-for-sale	<b>7,234</b>	–	<b>3,084</b>	<b>71,763</b>	<b>31,835</b>	<b>113,916</b>
– held-to-maturity	–	<b>8,894</b>	<b>31,844</b>	<b>106,316</b>	<b>3,795</b>	<b>150,849</b>
Loans and advances to banks	–	<b>153,476</b>	<b>3,977</b>	<b>14,910</b>	–	<b>172,363</b>
Loans and advances to customers	–	<b>295,323</b>	<b>56,435</b>	<b>310,750</b>	<b>225,510</b>	<b>888,018</b>
<b>Financial liabilities</b>						
Amounts owed to banks	–	<b>24,753</b>	<b>23,388</b>	–	<b>195</b>	<b>48,336</b>
Amounts owed to customers	–	<b>885,231</b>	<b>314,592</b>	<b>96,864</b>	–	<b>1,296,687</b>
Subordinated liabilities	–	–	<b>20,000</b>	–	–	<b>20,000</b>
<b>At 31 December 2003</b>						
<b>Financial assets</b>						
Balances with Central Bank of Malta and cash	–	60,558	–	–	–	60,558
Malta Government Treasury Bills	–	42,375	30,579	–	–	72,954
Investments						
– debt and other fixed income financial instruments						
– available-for-sale	7,297	–	–	28,289	47,939	83,525
– held-to-maturity	–	21,887	46,993	92,609	3,791	165,280
Loans and advances to banks	–	179,401	3,656	4,888	–	187,945
Loans and advances to customers	–	310,018	49,542	289,758	163,783	813,101
<b>Financial liabilities</b>						
Amounts owed to banks	–	23,800	8,373	–	195	32,368
Amounts owed to customers	–	845,381	344,616	76,662	4,399	1,271,058
Subordinated liabilities	–	–	–	20,000	–	20,000

**Notes on the Accounts** (continued)**40 Financial instruments and risk management** (continued)**c Market and liquidity risk management** (continued)

The group's foreign exchange exposure arises from foreign exchange dealings originated by the group's commercial and retail banking business. These exposures are managed by the group's treasury operations together with exposures, which result from dealing activities, within limits approved by the HSBC Group. Investments denominated in foreign currency are either used to hedge against liabilities held in foreign currency or are otherwise mainly invested in currencies according to their respective weightings in the Maltese lira basket. The group is exposed to currency risk in the event of re-alignment of the Maltese lira basket of currencies.

The following tables provide an analysis of the financial assets and liabilities of the group and the bank into relevant currency groupings.

	2004			2003		
	<i>Maltese liri</i>	<i>Other currencies</i>	<i>Total</i>	<i>Maltese liri</i>	<i>Other currencies</i>	<i>Total</i>
	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000
<i>Group</i>						
<b>Assets</b>						
Balances with Central Bank of Malta, Treasury Bills and cash	105,063	1,743	106,806	131,961	1,613	133,574
Cheques in course of collection	4,035	423	4,458	4,776	861	5,637
Financial assets held for trading						
– debt and other fixed income instruments	1,081	–	1,081	–	–	–
– equity and other non-fixed income instruments	108	–	108	141	–	141
– derivative financial instruments	–	3,637	3,637	–	2,303	2,303
Investments						
– debt and other fixed income financial instruments						
– available-for-sale	98,193	22,936	121,129	85,496	1,136	86,632
– held-to-maturity	20,237	100,696	120,933	27,963	107,433	135,396
– equity and other non-fixed income instruments						
– available-for-sale	3,464	211	3,675	12,701	330	13,031
Loans and advances to banks	2,718	128,563	131,281	361	130,339	130,700
Loans and advances to customers	945,959	33,487	979,446	893,668	28,858	922,526
Long-term assurance portfolios attributable to policyholders	37,975	28,021	65,996	25,894	24,298	50,192
Other assets	57,646	1,573	59,219	56,609	2,243	58,852
<b>Total assets</b>	<b>1,276,479</b>	<b>321,290</b>	<b>1,597,769</b>	<b>1,239,570</b>	<b>299,414</b>	<b>1,538,984</b>
<b>Liabilities and shareholders' funds</b>						
Financial liabilities held for trading	–	9,917	9,917	–	8,611	8,611
Amounts owed to banks	20,762	27,574	48,336	18,799	13,568	32,367
Amounts owed to customers	980,291	308,649	1,288,940	980,500	286,878	1,267,378
Debt securities in issue	12	–	12	12	–	12
Subordinated liabilities	20,000	–	20,000	20,000	–	20,000
Other liabilities	93,522	2,469	95,991	76,693	2,761	79,454
Shareholders' funds	134,573	–	134,573	131,162	–	131,162
<b>Total liabilities and shareholders' funds</b>	<b>1,249,160</b>	<b>348,609</b>	<b>1,597,769</b>	<b>1,227,166</b>	<b>311,818</b>	<b>1,538,984</b>

#### 40 Financial instruments and risk management (continued)

##### c Market and liquidity risk management (continued)

	2004			2003		
	<i>Maltese liri</i>	<i>Other currencies</i>	<i>Total</i>	<i>Maltese liri</i>	<i>Other currencies</i>	<i>Total</i>
	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>	Lm000	Lm000	Lm000
<i>Bank</i>						
<b>Assets</b>						
Balances with Central Bank of Malta, Treasury Bills and cash	<b>105,038</b>	<b>1,743</b>	<b>106,781</b>	131,899	1,613	133,512
Cheques in course of collection	<b>4,035</b>	<b>423</b>	<b>4,458</b>	4,776	861	5,637
Financial assets held for trading						
– debt and other fixed income instruments	<b>1,081</b>	–	<b>1,081</b>	–	–	–
– equity and other non-fixed income instruments	<b>108</b>	–	<b>108</b>	141	–	141
– derivative financial instruments	–	<b>3,637</b>	<b>3,637</b>	–	2,303	2,303
Investments						
– debt and other fixed income financial instruments						
– available-for-sale	<b>93,107</b>	<b>20,809</b>	<b>113,916</b>	83,525	–	83,525
– held-to-maturity	<b>50,153</b>	<b>100,696</b>	<b>150,849</b>	57,847	107,433	165,280
– equity and other non-fixed income instruments						
– available-for-sale	<b>3,451</b>	<b>10</b>	<b>3,461</b>	7,368	18	7,386
Loans and advances to banks	<b>43,800</b>	<b>128,563</b>	<b>172,363</b>	57,606	130,339	187,945
Loans and advances to customers	<b>854,401</b>	<b>33,617</b>	<b>888,018</b>	784,243	28,858	813,101
Other assets	<b>90,010</b>	<b>1,544</b>	<b>91,554</b>	90,218	2,243	92,461
<b>Total assets</b>	<b><u>1,245,184</u></b>	<b><u>291,042</u></b>	<b><u>1,536,226</u></b>	<b><u>1,217,623</u></b>	<b><u>273,668</u></b>	<b><u>1,491,291</u></b>
<b>Liabilities and shareholders' funds</b>						
Financial liabilities						
held for trading	–	<b>9,917</b>	<b>9,917</b>	–	8,611	8,611
Amounts owed to banks	<b>20,762</b>	<b>27,574</b>	<b>48,336</b>	18,800	13,568	32,368
Amounts owed to customers	<b>988,038</b>	<b>308,649</b>	<b>1,296,687</b>	984,180	286,878	1,271,058
Subordinated liabilities	<b>20,000</b>	–	<b>20,000</b>	20,000	–	20,000
Other liabilities	<b>24,195</b>	<b>2,469</b>	<b>26,664</b>	25,443	2,754	28,197
Shareholders' funds	<b>134,622</b>	–	<b>134,622</b>	131,057	–	131,057
<b>Total liabilities and shareholders' funds</b>	<b><u>1,187,617</u></b>	<b><u>348,609</u></b>	<b><u>1,536,226</u></b>	<b><u>1,179,480</u></b>	<b><u>311,811</u></b>	<b><u>1,491,291</u></b>

##### d Fair values

Certain of the group's financial assets and liabilities are carried at cost or amortised cost and not at fair value.

###### i Investments – Debt and other fixed income instruments held-to-maturity

This category of asset is carried at amortised cost and amounts to Lm120,933,000 as at 31 December 2004. Fair value based on quoted market prices at the balance sheet date without any deduction for transaction costs amounts to Lm121,003,000 as at 31 December 2004.

###### ii Investments – Equity and other non-fixed income instruments available-for-sale

Certain unlisted equity investments are carried at cost and amount to Lm576,000. There is no market for these investments and there have not been any recent transactions that provide evidence of the current fair value. Discounted cash flow techniques do not provide a reliable measure of the fair value of these investments.

**Notes on the Accounts** (continued)**40 Financial instruments and risk management** (continued)**d Fair values** (continued)*iii Loans and advances to banks and customers*

This category of asset is reported net of allowances to reflect the estimated recoverable amounts. As at 31 December 2004 the group's carrying amount was Lm1,110,727,000. The loans and advances to customers category of asset amounts to Lm979,446,000. This carrying value approximates to fair value in the case of loans which are repriceable at the group's discretion. These loans constitute a significant element of the total loan portfolio.

The loans and advances to banks category of asset amounts to Lm131,281,000. For loans and advances to banks within the "less than three months" maturity band fair value is taken to be the amount carried at balance sheet date. As at 31 December 2004, 85 per cent of loans and advances to banks had a contractual repricing within the "less than three months" band. Interest rates on these loans and advances reflect current market rates, and therefore the carrying amount approximates to fair value.

*iv Amounts owed to banks and customers*

This category of liability is carried at amortised cost and amounts to Lm1,337,276,000 as at 31 December 2004. Of this liability, 68 per cent has contractual repricing within the "less than three months" band, 25 per cent reprices within the "between three months and one year" band whilst 7 per cent reprices within the "between one year and five years" band. For demand deposits and deposits maturing within one year, fair value is taken to be the amount payable on demand at balance sheet date. Fair value of other fixed-maturity deposits, representing the remaining 7 per cent of this category of liability can be measured by discounted cash flows using rates currently offered for deposits of similar remaining maturities.

*v Subordinated liabilities*

This category of liability is carried at amortised cost and amounts to Lm20,000,000 as at 31 December 2004. Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs and amounts to Lm20,200,000 at 31 December 2004.

**41 Loans and commitments on behalf of directors and officers**

	<i>Group</i>				<i>Bank</i>			
	<b>2004</b> <i>Loans &amp; Advances</i>	<b>2004</b> <i>Commitments</i>	2003 <i>Loans &amp; Advances</i>	2003 <i>Commitments</i>	<b>2004</b> <i>Loans &amp; Advances</i>	<b>2004</b> <i>Commitments</i>	2003 <i>Loans &amp; Advances</i>	2003 <i>Commitments</i>
	<b>Lm000</b>	<b>Lm000</b>	Lm000	Lm000	<b>Lm000</b>	<b>Lm000</b>	Lm000	Lm000
<b>Directors</b>								
At 1 January	<b>68</b>	<b>40</b>	33	24	<b>68</b>	<b>40</b>	33	24
Additions	<b>36</b>	<b>13</b>	39	26	<b>36</b>	<b>13</b>	39	26
	<b>104</b>	<b>53</b>	72	50	<b>104</b>	<b>53</b>	72	50
Repayments/cancellations	<b>(37)</b>	<b>(20)</b>	(4)	(10)	<b>(37)</b>	<b>(20)</b>	(4)	(10)
At 31 December	<b>67</b>	<b>33</b>	68	40	<b>67</b>	<b>33</b>	68	40
<b>Officers</b>								
At 1 January	<b>1,076</b>	<b>405</b>	1,200	153	<b>982</b>	<b>358</b>	1,151	151
Additions	<b>242</b>	<b>87</b>	85	265	<b>232</b>	<b>74</b>	35	218
	<b>1,318</b>	<b>492</b>	1,285	418	<b>1,214</b>	<b>432</b>	1,186	369
Repayments/cancellations	<b>(332)</b>	<b>(133)</b>	(209)	(13)	<b>(317)</b>	<b>(128)</b>	(204)	(11)
At 31 December	<b>986</b>	<b>359</b>	1,076	405	<b>897</b>	<b>304</b>	982	358



#### 42 Trust activities

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The group provides trust services to individuals, trusts, retirement benefit plans and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The group receives fee income for providing these services. Trust assets are not assets of the group and are not recognised in the consolidated balance sheet. The group is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

At 31 December 2004, the total assets held by the group on behalf of customers were Lm273,324,000 (2003: Lm190,426,000).

#### 43 Registered office and ultimate parent company

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The addresses of the registered and principal offices of the bank and its subsidiary companies included in the consolidated financial statements can be found in a separate statement which is filed at the Registrar of Companies in accordance with the provisions of paragraph 23 of the Fourth Schedule to the Companies Act, 1995.

The ultimate parent company of HSBC Bank Malta p.l.c. is HSBC Holdings plc, which is incorporated and registered in England, the registered office of which is 8 Canada Square, London E14 5HQ, United Kingdom. Copies of the HSBC Holdings plc *Annual Review 2004* and *Annual Report and Accounts 2004* may be obtained from its registered office, from 31 March 2005.

#### 44 Comparative amounts

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Certain amounts have been reclassified to conform with the current year's presentation. In addition, the following items relating to the comparative period were restated:

	<u>As restated</u>	<u>As previously reported</u>	<u>Change</u>
	<b>Lm000</b>	<b>Lm000</b>	<b>Lm000</b>
<i>Group</i>			
Tangible fixed assets	30,511	31,934	(1,423)
Intangible fixed assets	1,762	339	1,423
<i>Bank</i>			
Tangible fixed assets	30,458	31,797	(1,339)
Intangible fixed assets	1,528	189	1,339

#### 45 Investor compensation scheme

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In accordance with the provisions of the Investor Compensation Scheme Regulations, 2003 issued under the Investment Services Act, 1994, licence holders are required to transfer a variable contribution to an Investor Compensation Scheme Reserve and place the equivalent amount with a bank, pledged in favour of the Scheme. Alternatively licence holders can elect to pay the amount of variable contribution directly to the Scheme.

HSBC Bank Malta p.l.c. and HSBC Stockbrokers (Malta) Limited have elected to pay the amount of the variable contribution directly to the Scheme.

**Group Solvency Ratio at 31 December 2004**

	<i>Face value</i>	<i>Weighted amount</i>
	<b>Lm000</b>	<b>Lm000</b>
<b>On-balance sheet assets</b>		
Balances with Central Bank of Malta, Treasury Bills and cash	<b>106,806</b>	–
Cheques in course of collection	<b>4,458</b>	<b>892</b>
Loans and advances to banks	<b>131,281</b>	<b>26,256</b>
Loans and advances to customers	<b>984,086</b>	<b>725,556</b>
Investments	<b>245,737</b>	<b>40,563</b>
Tangible fixed assets	<b>30,647</b>	<b>30,647</b>
Other assets	<b>80,549</b>	<b>52,762</b>
Prepayments and accrued income	<b>16,634</b>	<b>8,317</b>
	<b>1,600,198</b>	<b>884,993</b>
<b>Off-balance sheet items</b>		
Contingent liabilities and commitments	<b>379,293</b>	<b>29,193</b>
<b>Total adjusted assets and off-balance sheet items</b>		<b>914,186</b>
<b>Own funds</b>		
Original own funds	<b>110,518</b>	
Additional own funds	<b>16,730</b>	
<b>Total own funds</b>	<b>127,248</b>	
<b>Solvency ratio at 31 December 2004</b>		<b>13.92%</b>
Solvency ratio at 31 December 2003		14.98%

The solvency ratio is calculated in accordance with the Solvency Ratio of Credit Institutions and Own Funds of Credit Institutions Directives. These Directives are issued in terms of the Banking Act, 1994, Article 17(1).

## Group Profit and Loss Account: Five-Year Comparison

	2004	2003	2002	2001	2000
	Lm000	Lm000	Lm000	Lm000	Lm000
Interest receivable and similar income	<b>66,984</b>	69,360	76,105	82,588	84,333
Interest payable	<b>(27,505)</b>	(34,660)	(42,778)	(51,721)	(53,933)
<b>Net interest income</b>	<b>39,479</b>	34,700	33,327	30,867	30,400
Other operating income	<b>19,942</b>	18,668	18,282	20,424	17,622
Operating expenses	<b>(30,358)</b>	(30,290)	(28,588)	(29,385)	(29,165)
Amortisation of goodwill	<b>(339)</b>	(291)	(291)	(287)	(300)
Net impairment reversals/(losses)	<b>4,012</b>	3,386	(1,515)	(5,842)	(4,684)
Reversal/(provisions) for liabilities and other charges	<b>301</b>	(9)	(89)	(15)	49
<b>Profit on ordinary activities before tax</b>	<b>33,037</b>	26,164	21,126	15,762	13,922
Tax on profit on ordinary activities	<b>(10,907)</b>	(9,383)	(5,762)	(2,520)	(3,473)
<b>Profit on ordinary activities after tax</b>	<b>22,130</b>	16,781	15,364	13,242	10,449
Profit attributable to minority interest	–	–	–	–	(109)
<b>Profit for the financial year attributable to shareholders</b>	<b>22,130</b>	16,781	15,364	13,242	10,340
<b>Earnings per share</b>	<b>60.7c</b>	46.0c	42.1c	36.3c	28.3c

## Group Balance Sheet: Five-Year Comparison

	2004	2003	2002	2001	2000
	Lm000	Lm000	Lm000	Lm000	Lm000
<b>Assets</b>					
Balances with Central Bank of Malta,					
Treasury Bills and cash	106,806	133,574	171,501	119,862	96,690
Cheques in course of collection	4,458	5,637	3,986	4,513	6,027
Financial assets held for trading	4,826	2,444	2,779	5,580	4,291
Investments	245,737	235,059	263,912	295,524	310,417
Loans and advances to banks	131,281	130,700	146,000	72,010	76,739
Loans and advances to customers	979,446	922,526	890,664	878,329	847,568
Shares in subsidiary companies	–	–	–	–	1
Intangible fixed assets	1,022	1,762	630	921	1,208
Tangible fixed assets	30,647	30,511	28,965	26,688	23,734
Deferred tax asset	–	1,607	6,011	6,705	5,803
Other assets	76,912	59,102	37,627	26,332	20,309
Prepayments and accrued income	16,634	16,062	18,258	19,807	22,065
<b>Total assets</b>	<b>1,597,769</b>	<b>1,538,984</b>	<b>1,570,333</b>	<b>1,456,271</b>	<b>1,414,852</b>
<b>Liabilities</b>					
Financial liabilities held for trading	9,917	8,611	6,402	405	–
Amounts owed to banks	48,336	32,367	64,563	60,615	54,976
Amounts owed to customers	1,288,940	1,267,378	1,303,140	1,223,077	1,183,409
Debt securities in issue	12	12	12	12	16,122
Deferred tax liability	2,318	–	–	–	–
Other liabilities	78,546	62,080	39,780	29,687	26,820
Accruals and deferred income	15,101	15,676	17,848	18,204	20,642
Provisions for liabilities and other charges	26	1,698	1,591	229	214
Subordinated liabilities	20,000	20,000	20,000	20,000	20,000
	<b>1,463,196</b>	<b>1,407,822</b>	<b>1,453,336</b>	<b>1,352,229</b>	<b>1,322,183</b>
<b>Shareholders' funds</b>					
Called up share capital	9,120	9,120	9,120	9,120	9,120
Revaluation reserves	11,086	10,978	7,933	6,420	7,790
Other reserve	4,242	4,242	4,242	4,242	4,242
Profit and loss account	103,652	100,989	92,572	82,363	70,095
Dividend reserve	6,473	5,833	3,130	1,897	1,422
	<b>134,573</b>	<b>131,162</b>	<b>116,997</b>	<b>104,042</b>	<b>92,669</b>
<b>Total liabilities and shareholders' funds</b>	<b>1,597,769</b>	<b>1,538,984</b>	<b>1,570,333</b>	<b>1,456,271</b>	<b>1,414,852</b>
<b>Memorandum items</b>					
Contingent liabilities	44,127	38,818	47,634	36,117	31,508
Commitments	330,584	297,631	287,605	264,622	270,074

**Group Cash Flow Statement: Five-Year Comparison**

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
	<b>Lm000</b>	Lm000	Lm000	Lm000	Lm000
<b>Net cash flows from/(used in) operating activities</b>	<b>8,415</b>	(51,991)	(17,628)	50,830	(28,429)
<b>Cash flows from investing activities</b>					
Dividends received	77	125	122	144	482
Interest received from investment securities	12,512	13,279	19,151	11,073	16,067
Proceeds on disposal of available-for-sale instruments	10,814	9,986	8,728	16,966	–
Proceeds on maturity/disposal of investment securities	70,488	72,588	91,044	86,768	110,763
Proceeds on liquidation of subsidiaries	–	–	–	1	–
Proceeds on disposal of associated companies	–	–	–	–	360
Proceeds on disposal of tangible fixed assets	52	26	51	74	37
Purchase of available-for-sale instruments	(35,332)	(1,812)	(297)	(27,960)	–
Purchase of investment securities	(57,805)	(50,295)	(70,826)	(51,507)	(140,342)
Purchase of tangible fixed assets	(1,276)	(5,286)	(6,041)	(4,110)	(6,190)
Purchase of intangible fixed assets	(86)	(66)	(484)	(1,020)	–
Purchase of shares in subsidiary companies	–	–	–	–	(1,412)
<b>Net cash flows (used in)/ from investing activities</b>	<b>(556)</b>	38,545	41,448	30,429	(20,235)
<b>Cash flows from financing activities</b>					
Dividends paid	(18,827)	(5,691)	(3,794)	(2,608)	(1,660)
Decrease in debt securities in issue	–	–	–	(16,110)	(2)
<b>Cash used in financing activities</b>	<b>(18,827)</b>	(5,691)	(3,794)	(18,718)	(1,662)
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>(10,968)</b>	(19,137)	20,026	62,541	(50,326)

## Group Accounting Ratios: Five-Year Comparison

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
	%	%	%	%	%
Net interest income and other operating income to total assets	<b>3.7</b>	3.5	3.3	3.5	3.4
Operating expenses to total assets	<b>1.9</b>	2.0	1.8	2.0	2.1
Profit before tax to total assets	<b>2.1</b>	1.7	1.3	1.1	1.0
Return on capital employed before tax	<b>24.2</b>	19.1	16.6	13.6	12.8
Profit after tax to equity	<b>16.4</b>	12.8	13.1	12.7	11.2
	<u><b>2004</b></u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Shares in issue (millions)	<b>36.5</b>	36.5	36.5	36.5	36.5
Net assets per share (cents)	<b>368.9</b>	359.5	320.7	285.2	254.0
Earnings per share (cents)	<b>60.7</b>	46.0	42.1	36.3	28.3
Dividend per share (cents)					
– gross	<b>82.1</b>	35.4	21.2	13.0	11.0
– net	<b>53.4</b>	23.0	13.8	8.5	7.2
Dividend cover	<b>1.1</b>	2.0	3.1	4.3	4.0

## Group Financial Highlights in Major Currencies

	2004	2003	2004	2003
	€000	€000	US\$000	US\$000
<b>Profit and loss account</b>				
Operating income	136,820	122,883	186,682	167,666
Operating expenses	(69,901)	(69,744)	(95,375)	(95,162)
Amortisation of goodwill	(781)	(670)	(1,065)	(914)
Net impairment reversals	9,238	7,796	12,604	10,638
Reversals/(provisions) for liabilities and other charges	693	(21)	946	(28)
<b>Profit on ordinary activities before tax</b>	<b>76,069</b>	<b>60,244</b>	<b>103,792</b>	<b>82,200</b>
Tax on profit on ordinary activities	(25,114)	(21,605)	(34,266)	(29,478)
<b>Profit for the financial year attributable to shareholders</b>	<b>50,955</b>	<b>38,639</b>	<b>69,526</b>	<b>52,722</b>
<b>Balance sheet</b>				
<b>Assets</b>				
Balances with Central Bank of Malta,				
Treasury Bills and cash	245,927	307,562	335,551	419,648
Cheques in course of collection	10,265	12,980	14,006	17,710
Financial assets held for trading	11,112	5,627	15,162	7,678
Investments	565,823	541,236	772,030	738,483
Loans and advances to banks	302,282	300,944	412,444	410,619
Loans and advances to customers	2,255,229	2,124,168	3,077,116	2,898,291
Intangible fixed asset	2,353	4,057	3,211	5,536
Tangible fixed assets	70,566	70,253	96,283	95,856
Deferred tax asset	–	3,700	–	5,048
Other assets	177,094	136,086	241,634	185,680
Prepayments and accrued income	38,301	36,984	52,259	50,462
<b>Total assets</b>	<b>3,678,952</b>	<b>3,543,597</b>	<b>5,019,696</b>	<b>4,835,011</b>
<b>Liabilities and shareholders' funds</b>				
Financial liabilities held for trading	22,834	19,827	31,156	27,053
Amounts owed to banks	111,296	74,527	151,857	101,687
Amounts owed to customers	2,967,856	2,918,209	4,049,450	3,981,709
Debt securities in issue	28	28	38	38
Deferred tax liability	5,337	–	7,282	–
Other liabilities	180,858	142,943	246,767	195,037
Accruals and deferred income	34,771	36,095	47,443	49,249
Provisions for liabilities and other charges	60	3,910	82	5,335
Subordinated liabilities	46,051	46,051	62,834	62,834
Called up share capital	20,999	20,999	28,652	28,652
Revaluation reserves	25,526	25,277	34,829	34,489
Other reserve	9,767	9,767	13,327	13,327
Profit and loss account	238,665	232,533	325,643	317,276
Dividend reserve	14,904	13,431	20,336	18,325
<b>Total liabilities and shareholders' funds</b>	<b>3,678,952</b>	<b>3,543,597</b>	<b>5,019,696</b>	<b>4,835,011</b>

The euro exchange rate ruling on 31 December 2004 was €1 = Lm0.4343. The US dollar exchange rate ruling on the same date was US\$1 = Lm0.3183. Comparative results have also been translated at these rates.

## Shareholder Register Information

### Directors' interest in the share capital of the company or in any related company at 31 December 2004

Charles John Farrugia	1,000 shares
Philip Farrugia Randon	800 shares

### Shareholders holding 5% or more of the equity capital at 21 January 2005

HSBC Europe B.V.	70.03%
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### Number of shareholders at 21 January 2005

One class of shares (All shares have equal voting rights)	3,873 shareholders
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### Number of shareholders analysed by range

Range of shareholding	Total shareholders	Shares
1 - 500	1,591	426,440
501 - 1,000	959	760,570
1,001 - 5,000	1,073	2,381,859
5,001 and over	250	32,911,131

### Company Secretary

George Brancaleone  
233 Republic Street  
Valletta VLT 05  
Tel: 2597 2404



## Branches and Offices

### MALTA OFFICES

#### Registered Office / Head Office

233 Republic Street, Valletta VLT 05  
Tel: 2597 0000 Fax: 2380 4923

Operations Centre  
80 Mill Street, Qormi QRM 03  
Tel: 2380 0000 Fax: 2380 4923

Hexagon House, Spencer Gardens  
Blata l-Bajda HMR 12  
Tel: 2293 0000 Fax: 2293 3684

#### Card Products Division

Operations Centre  
80 Mill Street, Qormi QRM 03  
Tel: 2380 5983 Fax: 2380 4924

#### Direct Banking Centre

Operations Centre  
80 Mill Street, Qormi QRM 03  
Tel: 2380 2380 Fax: 2149 0613  
Freephone: 8007 4444

#### Information Technology

Operations Centre  
80 Mill Street, Qormi QRM 03  
Tel: 2380 6380 Fax: 2380 6381

#### Legal Office

116 Archbishop Street  
Valletta VLT 05  
Tel: 2597 2406 Fax: 2597 2418

Contracts Centre  
32 Merchants Street, Valletta VLT 10  
Tel: 2597 3384, 2597 3387  
Fax: 2597 3306

Inheritance Unit  
15 Republic Street, Valletta VLT 04  
Tel: 2125 1472, 2122 7415  
Fax: 2123 1076

#### Payment Services Department

Operations Centre  
80 Mill Street, Qormi QRM 03  
Tel: 2380 5900 Fax: 2380 4842

#### Securities Centre

Zabbar Road, Fgura PLA 16  
Tel: 2167 7905, 2167 7909  
Fax: 2167 7892

#### Small & Medium Size

**Enterprises Unit**  
Small Enterprise Centre  
Industrial Estate, Marsa HMR 15  
Tel: 2125 1459, 2125 1747  
Fax: 2125 1458

#### Trade Services

1st Floor, St. Andrews Road  
St. Andrews STJ 07  
Tel: 2324 8850 Fax: 2324 8890

#### Balzan

Bertu Fenech Square BZN 06  
Tel: 2380 2380 Fax: 2380 1190

#### Birkirkara

1 Naxxar Road BKR 07  
Tel: 2380 2380 Fax: 2334 1690

#### Birkirkara (Agency)

Sanctuary Street BKR 03  
Tel: 2144 0406 Fax: 2144 0406

#### Birkirkara (Commercial Centre)

1 Naxxar Road BKR 07  
Tel: 2334 1671 Fax: 2334 1691

#### Birzebbugia

2 Birzebbugia Road BBG 05  
Tel: 2380 2380 Fax: 2361 4790

#### Blata l-Bajda (Commercial Branch)

Hexagon House  
Spencer Gardens HMR 12  
Tel: 2293 3407 Fax: 2293 3697

#### Bugibba

Bay Square SPB 04  
Tel: 2380 2380 Fax: 2334 7390

#### Cospicua

50 Pilgrimage Street CSP 02  
Tel: 2380 2380 Fax: 2293 4090

#### Fgura

Council of Europe Square PLA 17  
Tel: 2380 2380 Fax: 2361 8790

#### Fgura (Automated Office)

Galleria Shopping Complex, Fgura

#### Floriana

Development House VLT 01  
Tel: 2380 2380 Fax: 2597 8990

#### Gudja (Agency)

1 Main Street ZTN 12  
Tel: 2182 1385 Fax: 2169 5607

#### Gzira

196 The Strand GZR 03  
Tel: 2380 2380 Fax: 2324 3990

#### Hamrun

121 St. Joseph Road HMR 02  
Tel: 2380 2380 Fax: 2597 2390

#### Luqa

143 Carmel Street LQA 04  
Tel: 2380 2380 Fax: 2361 5090

#### Luqa (Bureau)

Malta International Airport, LQA 05  
Arrivals Area - Tel: 2180 1957/8  
Fax: 2180 1938  
Customs Area - Tel: 2180 1912

#### Marsa

19 Cross Road HMR 17  
Tel: 2380 2380 Fax: 2293 3790

#### Marsascala (Automated Office)

St. Anthony Street ZBR 11

#### Marsaxlokk (Agency)

Zejtun Road ZTN 09  
Tel: 2165 0667, 2165 8101  
Fax: 2165 0668

#### Mellieha

6 Gorg Borg Olivier Street MLH 06  
Tel: 2380 2380 Fax: 2334 6890

#### Mosta

63 Constitution Street MST 08  
Tel: 2380 2380 Fax: 2334 6190

#### Mosta (Commercial Centre)

63 Constitution Street MST 08  
Tel: 2334 6174 Fax: 2334 6191

#### Msida

52 Msida Seafront MSD 08  
Tel: 2380 2380 Fax: 2597 8590

#### Msida, University of Malta

Room 6, Ground Floor  
Humanities Building MSD 06  
Tel: 2132 0550, 2134 5081  
Fax: 2133 1377

#### Naxxar

Victory Square NXR 04  
Tel: 2380 2380 Fax: 2334 5990

#### Paceville (Automated Office)

Eden Super Bowl

#### Paola

12 Antoine De Paule Square PLA 06  
Tel: 2380 2380 Fax: 2361 1390

#### Paola (Commercial Centre)

12 Antoine De Paule Square PLA 06  
Tel: 2361 1360 Fax: 2361 1392

#### Qormi

38 St. Sebastian Street QRM 07  
Tel: 2380 2380 Fax: 2380 5490

#### Rabat

12 Saqqajja Square RBT 12  
Tel: 2380 2380 Fax: 2334 5890

#### San Gwann

Naxxar Road SGN 08  
Tel: 2380 2380 Fax: 2324 7590

#### St. Andrews

St. Andrews Road STJ 07  
Tel: 2380 2380 Fax: 2324 8894

#### St. Julians

St. George's Road STJ 10  
Tel: 2380 2380 Fax: 2324 2090

#### St. Paul's Bay

St. Paul's Street SPB 09  
Tel: 2380 2380 Fax: 2334 6490

#### St. Venera

Fleur-de-Lys Junction BKR 02  
Tel: 2380 2380 Fax: 2380 2790

#### Sliema

High Street SLM 01  
Tel: 2380 2380 Fax: 2324 6090

#### Sliema (Commercial Centre)

High Street SLM 01  
Tel: 2324 6071 Fax: 2324 6092

#### Sliema

112 Manwel Dimech Street SLM 14  
Tel: 2380 2380 Fax: 2324 8090

**Sliema - The Plaza (Automated Office)**  
Bisazza Street SLM 15

#### Tarxien

Main Street PLA 12  
Tel: 2380 2380 Fax: 2293 1290

#### Valletta

32 Merchants Street VLT 10  
Tel: 2380 2380 Fax: 2597 3320

#### Valletta

17 Lascaris Wharf VLT 01  
Tel: 2380 2380 Fax: 2597 2599

#### Valletta Exchange Bureau

15 Republic Street VLT 04  
Tel: 2123 9973

#### Valletta (Commercial Centre)

32 Merchants Street VLT 10  
Tel: 2597 3365 Fax: 2597 3342

#### Valletta International

**Banking Centre**  
233 Republic Street VLT 05  
Tel: 2597 2687 Fax: 2597 2465

#### Valletta Premier Centre

233 Republic Street VLT 05  
Tel: 2597 2904 Fax: 2597 2219

#### Valletta Share Shop

241/242 Republic Street VLT 05  
Tel: 2597 2231 Fax: 2597 2475

#### Valletta Wealth Management Office

233 Republic Street VLT 05  
Tel: 2597 2914 Fax: 2597 2926

#### Zabbar

15B Sanctuary Street ZBR 02  
Tel: 2380 2380 Fax: 2361 4290

#### Zebbug

254 Main Street ZBG 04  
Tel: 2380 2380 Fax: 2293 4490

#### Zejtun

25th November Avenue ZTN 05  
Tel: 2380 2380 Fax: 2361 5690

#### Zurrieq

38 High Street ZRQ 03  
Tel: 2380 2380 Fax: 2361 7890

## Branches and Offices (continued)

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### GOZO OFFICES

**Victoria**

90 Republic Street VCT 103  
Tel: 2380 2380 Fax: 2293 7190

**Victoria****Wealth Management Centre**

43 Republic Street VCT 103  
Tel: 2156 5752, 2156 5753, 2156 5247  
Fax: 2156 5754

**Nadur (Agency)**

18 St. Peter & St. Paul Sqr NDR 103  
Tel: 2155 6362 Fax: 2155 6362

**Xaghra (Agency)**

8th September Avenue XRA 103  
(Corner with Victory Street)  
Tel: 2155 6313 Fax: 2155 6313

**Xlendi (Automated Office)**

Calleja Flats, Flat 1  
Rabat Road VCT 115

### SUBSIDIARY COMPANIES

**HSBC Fund Management  
(Malta) Ltd**

114 The Strand, Gzira GZR 03  
Tel: 2324 5126 Fax: 2324 5190

**HSBC Home Loans (Malta) Ltd**

Hexagon House, Spencer Gardens  
Blata l-Bajda HMR 12  
Tel: 2380 4689 Fax: 2380 6298

Operations Centre,

80 Mill Street, Qormi QRM 03  
Tel: 2380 4689 Fax: 2380 6298

**HSBC Life Assurance (Malta) Ltd**

Council of Europe Square  
Fgura PLA 17  
Tel: 2361 8699 Fax: 2361 8690

**HSBC Stockbrokers (Malta) Ltd**

233 Republic Street, Valletta VLT 05  
Tel: 2597 2241 Fax: 2597 2494

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